

III. Revenue

A. Summary of Results and Comparisons

Electric

Over the five year audit period, PG&E's, SCE's and SDG&E's electric PPP rates were developed in accordance with the Commission's requirements, properly computed, and reflected in the utility's tariff. As shown in **Exhibit III-1**, billed non-CARE electric revenues exceeded revenue requirements by an estimated \$55.3 million over the five year audit period. During this same period, PG&E's CARE revenues were undercollected and SDG&E's CARE revenues were slightly overcollected.

**Exhibit III-1: From 1998-2002, the Utilities' Overcollections of Electric Non-CARE Public Purpose Program Revenues Totaled \$55 Million
(Dollars in Thousands)**

	Electric PPC Revenue Requirement 1998-2002	Billed Electric PPC Revenues 1998-2002	Over/(Under) Collections 1998-2002
Non-CARE			
PG&E	\$1,046,724	\$1,121,281	\$74,557
SCE	954,653	924,969	(29,684)
SDG&E	241,500	251,966	10,466
Non-CARE Total	\$2,242,877	\$2,298,216	\$55,339
CARE			
PG&E	\$232,451	\$197,196	\$(35,255)
SCE	Not provided	Not provided	Not provided
SDG&E	42,325	44,165	1,840
CARE Total	\$274,776	\$241,361	\$(33,415)

As a result of PG&E's and SCE's balancing account design, PPP overcollections are used to offset transition costs. In accordance with Commission approved tariffs, PG&E and SCE record the monthly PPP revenue requirement in the TRA, as opposed to billed revenues. TRA credit balances are transferred to the Transition Cost Balancing Account (TCBA) where they serve to recover transition costs. PG&E and SCE also record revenue requirements and not billed revenues in their cost balancing accounts. At no point are actual PPP revenues tracked or compared to PPP costs. In contrast, SDG&E records billed PPP revenues and PPP costs in its balancing account. As a result, SDG&E's overcollection was assigned to the energy efficiency and low-income balancing accounts.

Gas

With the exception of PG&E's improper inclusion of Customer Energy Efficiency (CEE) shareholder incentive revenue requirements, all utility gas PPP rates were calculated correctly during the period 1998 through 2002. PG&E erroneously included an amount for CEE shareholder incentives in its PPP surcharge rates rather than in its core gas transportation rates; however this has no net effect on PG&E's ratepayers.

Both SDG&E and SCG treat the PPP gas surcharge and payments to the Board of Equalization (BOE) as an Excise Tax, whereas PG&E treats the gas surcharge as revenue. PG&E adheres to all aspects of the tax code, with the exception of which customers are excluded when calculating the surcharge or remittance quantities. The differing treatment affects the amount of gas surcharge revenues billed to customers. In 2001 and 2002, about 60 percent of SDG&E's and SCG's gas sales were exempt from the surcharge, compared to 46 percent for PG&E. The accounting treatment of the gas PPP surcharge, as well as other issues, is the subject of a current Commission proceeding. On October 3, 2002, the Commission implemented Rulemaking (R.) 02-10-001 to consider broad policy issues and adopt a long-term framework for implementing AB 1002. In a scoping memo issued April 22, 2003, the proceeding was segregated into two phases with Phase I focusing on administrative and implementation matters and Phase II on issues related to public interest research and development (RD&D). At time of the completion of our field work, the proper treatment of the gas surcharge had not been resolved.

Our review of utility payments to and collections from the State Board of Equalization indicates that the calculations and payments were made correctly, although payments to the BOE exceeded requests for reimbursement. As a result of differences between customer rates and the rates used for BOE remittances, billed customer revenues differ from amounts paid to the BOE.

Exhibit III-2 and **Exhibit III-3**, which follow, list blueCONSULTING's conclusions and recommendations by utility.

Exhibit III-2: Summary of Conclusions by Utility [Note 1]

Review Area	PG&E	SCE	SDG&E	SCG
Revenue Requirements and Rate Design - Electric	<p>1. PG&E's initial electric PPP rates were developed in accordance with the Commission's requirements, properly computed, and reflected in the utility's tariff.</p> <p>2. PG&E's electric PPP rates were revised four times between January 1, 1998 and December 31, 2002. blueCONSULTING's review of PG&E's rate calculations and the supporting material associated with those filings determined that the rates were properly computed.</p> <p>3. Although Resolution E-3792, issued December 17, 2002, increased PG&E's PPP revenue requirements by \$21.1 million, Resolution E-3792-E required PG&E to file the changes to the PPP rates to reflect the adopted revenue requirement in Phase 1 of PG&E's 2003 General Rate Case.</p>	<p>16. SCE's initial electric PPP rates were developed in accordance with the Commission's requirements, properly computed, and reflected in the utility's tariff.</p> <p>17. The January 1, 1998 PPP rates were revised on August 2, 1999 and again on March 16, 2001. The 1999 and 2001 PPP filings and rate calculations were made in accordance with the Commission's requirements.</p> <p>18. There were two revisions to SCE's revenue requirements that occurred during the 1998-2002 period which did not result in revised PPPC rates.</p>	<p>22. With the exception of the application of the SAPC methodology, the initial PPP electric rates established effective January 1, 1998 were developed in accordance with Commission requirements, were properly computed and are properly described in the Company's tariffs.</p> <p>23. At the time of the lifting of the rate freeze in 1999, SDG&E properly implemented a PPP rate change in accordance with the Commission's requirements. The PPP rate was not changed until 2004 to account for an increase in the RD&D revenue requirement specified in P.U. Code Sec. 399.8 adopted December 17, 2002.</p>	NA
Regulatory Accounts - Electric	<p>4. The PPP revenue requirements recorded in the TRA understate the PPP revenue requirements by \$211,000 during the period 1998 through 2002 due to the inclusion of an incorrect amount for CARE administrative costs in 2001.</p> <p>5. The PPPEEBA balancing account properly includes the \$106 million annual energy efficiency revenue requirement for Program Years 1998 through 2002.</p>	21. SCE properly recorded the approved PPP revenue requirements in its balancing accounts.	<p>24. PPP revenues are properly recorded in the balancing accounts using the PPP rate applied to actual billed volumetric sales, and the percentage allocation to programs established in 1998.</p> <p>25. blueCONSULTING's review of revenue entries to the SDG&E PPP balancing accounts during the 1998-2002 audit period disclosed no significant matters requiring further investigation.</p>	NA
PPPC Revenues - Electric	<p>6. Prior to September 1999, PG&E was not able to report unbundled revenues by customer class due to limitations in its customer information system (GIS).</p> <p>7. blueCONSULTING's analysis indicates that during the period 1998 through 2002, PG&E billed approximately \$39.2 million (3 percent) more than the authorized \$1.1 billion electric PPP revenue requirements for this period. CARE costs were undercollected by an estimated \$35.3 million, and non-CARE costs were overcollected by an estimated \$74.6 million. Differences occur as a result of changes between forecast sales volumes used in the development of rates and actual sales.</p>	<p>19. Prior to 2000, SCE's revenue reporting system (CRRIS) was not able to report unbundled revenues by customer class. Total unbundled revenues were tracked, but the unbundled components by customer class were not.</p> <p>20. During the period 1998 through 2002, SCE's billed non-CARE PPC revenues totaled \$1.1 billion dollars, an estimated \$29.7 million less than the non-CARE PPC revenue requirement. Undercollections result from differences between actual kWh sales and forecast sales used in the PPC rate design.</p>	26. SDG&E billed customers approximately \$12.3 million more than the \$283.8 million electric PPP revenue requirements in the 1998-2002 period.	NA

Note 1: Numbering reflects the conclusion numbers included in the conclusion sections of this report. As a result, the numbers shown above may not be consecutive.

Exhibit III-2: Summary of Conclusions by Utility [Note 1]

Review Area	PG&E	SCE	SDG&E	SCG
Revenue Requirements and Rate Design - Gas	<p>8. With the exception of the improper inclusion of CEE shareholder incentive revenue requirements, discussed further in Conclusion C9, PG&E's gas PPP rates were calculated correctly.</p> <p>9. During the audit period, PG&E erroneously included an amount for CEE shareholder incentives in its PPP surcharge rates, rather than in its gas transportation rates; however this has no net effect on PG&E's ratepayers.</p>	NA	<p>27. During the period 1998-2002, SDG&E's gas surcharge rates were calculated in accordance with the Commission requirements.</p> <p>28. When the PPP gas surcharge was removed from the transportation rate and a new gas surcharge rate was established effective July 1, 2001, SDG&E properly computed the new rate in accordance with Commission requirements, and added it to its approved tariffs.</p>	<p>33. SCG's gas surcharge rate changes were calculated in accordance with Commission requirements.</p>
PPPC Revenues - Gas	<p>10. In contrast to SDG&E and SCG, PG&E treats the gas PPP surcharge as revenue, rather than as an excise tax.</p> <p>11. In accordance with Resolution G-3033, PG&E began to track the PPP revenues starting January 1, 2001, and showed the PPP rate as a separate line item on customers' bills by July 1, 2001.</p> <p>12. blueCONSULTING's analysis indicates that during the period 1998 through 2002, PG&E billed an estimated \$8.8 million (3 percent) more than the authorized \$253.5 million gas PPP revenue requirements for this period.</p> <p>13. PG&E's payments to the State Board of Equalization (BOE) were calculated in accordance with Commission-approved PPP rates. However, as a result of changes in surcharge rates billed to customers, \$2.6 million more revenue was billed to PG&E customers than what was sent to the BOE.</p> <p>14. The remitted revenues PG&E sent to the BOE in years 2001 and 2002 exceed PG&E's claimed amounts for 2001 and 2002 gas CARE, LIEE, and Energy Efficiency expenses by \$13 million.</p> <p>15. PG&E's gas balancing accounts properly reflect the PPP revenues.</p>	NA	<p>29. Although there is no indication that SDG&E did not follow the Commission's prescribed accounting and reporting requirements, during the period from 1998 through 2000, it is not possible to determine the actual amount of PPP revenues derived from the Company's gas operations.</p> <p>30. SDG&E treats the PPP gas surcharge and payments to the Board of Equalization (BOE) as an Excise Tax. As a result, SDG&E's surcharge rate calculations exclude a high percentage of total SDG&E gas sales (over 60 percent) to the classes of customers specified in Regulation Section 2316, including sales for power generation, sales for resale, and other specified end uses.</p> <p>31. Our review of SDG&E's payments to and collections from the BOE, indicates that the calculations and payments by SDG&E were made correctly, while the payments to SDG&E from the BOE were delayed.</p> <p>32. In PY 2001 and 2002, SDG&E properly calculated PPP revenue collections and made appropriate payments to the BOE. Because of differences in actual volumetric sales and the sales volumes used to calculate the approved rates, SDG&E collected approximately \$378,000 more than its liability to the BOE.</p>	<p>34. SCG treats the PPP gas surcharge and payments to the BOE as an excise tax. As a result, a significant portion of the terms sold are not subject to the surcharge (54 percent); however, not all exemptions are tax related.</p> <p>35. Prior to the implementation of AB 1002 on January 1, 2001, PPP revenues were embedded in the transportation rates and not separately tracked. As required by AB 1002, after January 2001, SCG began tracking gas PPP revenue.</p> <p>36. In 2001 and 2002, customer-billed PPP revenues exceeded the authorized revenue requirements by \$20.9 million. From 1998 through 2000, the estimated PPP revenues were \$26.3 million less than the authorized revenue requirements.</p> <p>37. PPP billed revenues differ from the amount of remitted to the BOE. The BOE remittance was \$203.3 million for the two year period, while the amount collected from customers was \$204.5 million. Payments to the BOE were made correctly. Payments to SCG from the BOE were significantly delayed.</p>
Regulatory Accounts - Gas		NA		<p>38. With the possible exception of the interest calculation, SCG's entries to the gas balancing accounts were made correctly.</p>

Note 1: Numbering reflects the conclusion numbers included in the conclusion sections of this report. As a result, the numbers shown above may not be consecutive.

Exhibit III-3: Summary of Recommendations by Utility

Utility	Recommendations for the Utilities	Policy Issues for the Commission
PG&E	PG&E should make a one time adjustment to the PPP revenue requirements in the TRA to adjust for the \$210,759 CARE administrative costs requirements which were inadvertently excluded in 2001. (Refers to Conclusion No. C4)	The Commission should determine whether the gas PPPC should be treated as revenues or as a tax, and require consistent accounting treatment by the utilities. Treatment of the surcharge as a tax may have unintended consequences with respect to the number of customers exempt from the surcharge. (Refers to Conclusion No. C10)
SCE	None.	None.
SDG&E	None.	Same as for PG&E.
SCG	If required by the Commission, SCG should revise the balancing accounts to reflect changes in the interest calculation as discussed in Chapter IV.	Same as for PG&E.

B. Background and Approach**1. RFP Task Area**

Verify PGC collections during the period 1998 through 2002, including implementation of TRA account policies and procedures and the system average percent ratesetting methodology for energy efficiency.

2. Objectives

- Determine whether PGC revenues (electric and gas) collected are consistent with applicable Commission decisions and legislation.
- Determine the estimated energy efficiency portion of the PGC revenues.
- Determine that PGC revenues are properly recorded in applicable balancing accounts in accordance with applicable regulatory requirements and approved tariffs.

3. Background**Electric Authorized Funding Levels**

When adopted in August 1997, AB 1890 provided for the continued funding of electric utility public goods programs, including low-income customer assistance, research, development and demonstration (RD&D), demand side management and renewable electric generation technologies. (Prior to AB 1890 programs were funded out of utility rates.) Electric utilities were required to freeze rates and separate or “unbundle” rates in a manner that enabled the identification of separate rate components, including a public goods charge (PGC) to fund these programs. Costs were to be separated in a way that avoided cost shifting. The Legislation provided for minimum funding levels for cost effective energy efficiency, RD&D and renewable technology for the period 1998-2001, by the state’s large investor-owned utilities (\$400 million annually from 1998 through 2000, and \$387 million in 2001). Low income energy efficiency

(LIEE) and California Alternate Rates for Energy (CARE) programs were to be funded at not less than 1996 levels based on customer need.

In D.97-02-014, the Commission adopted the minimum funding levels established by AB 1890 initially, but did not preclude consideration of higher levels in the future. Consistent with the provisions of AB 1890, the Commission determined that 1996 funding levels were sufficient to meet current customer needs for low-income assistance programs, and initially set 1998 funding at 1996 levels. The Commission did not impose a specific cap on CARE funding. As part of the decision, the Commission also established initial funding for gas energy efficiency programs at 1996 levels. Utilities were required to identify the 1996 authorized funding levels for gas demand-side management and for gas and electric low-income assistance programs, by program category within 120 days of the effective date of the decision.

P.U. Code § 399.8 extended funding for PGC programs through January 1, 2012. Beginning January 1, 2002, electric PGC program funding was set at \$425.5 million annually. In Resolution E-3792, the Commission established the following electric energy efficiency allocations: \$106 million for PG&E; \$90 million for SCE; and \$32 million for SDG&E. Section 399.8 also limited funding for RD&D and renewable energy programs specifying that the rates used to collect funds in these areas may not exceed rate levels in effect on January 1, 2000. The Commission estimated the amount of funding requirement based on 2000 rates and sales projections. The Commission also noted that retail rates should be designed to collect accurately the target amounts mandated under § 399.8, and that these costs should be included in the ongoing rate design phase of the rate cases for SCE and PG&E, and in the upcoming Annual Rate Design proceeding for SDG&E, and these rate components should be adjusted to reflect their application beginning in January, 2002. The utilities were directed to establish separate balancing accounts to track the collection of these electric PGC funds and to account for related interest.

Exhibit III-4 provides the minimum electric funding levels in place over the audit period.

Exhibit III-4: From 1998-2002, the Commission Authorized over \$2 Billion of Electric PGC Funding (Dollars in Millions)

	1998	1999	2000	2001	2002	Total 1998-2002
Energy Efficiency/ Conservation	\$228.0	\$228.0	\$228.0	\$188.0	\$228.0	\$1,100.0
RD&D	62.5	62.5	62.5	62.5	62.5	312.5
Renewable Technologies	109.5	109.5	109.5	136.5	210.0 [Note 2]	675.0
Subtotal	\$400.0	\$400.0	\$400.0	\$387.0	\$500.5	\$2,087.5
LIEE [Note 1]	1996 levels	1996 levels	1996 levels	1996 levels	Not to exceed 2000 rate levels	
CARE [Note 1]	1996 levels	1996 levels	1996 levels	1996 levels	Not to exceed 2000 rate levels	

Note 1: Minimum funding levels during the period 1998-2001 were to be not less than 1996 authorized levels based on an assessment of customer need. Electric low-income assistance costs were approximately \$106.9 million in 1996.

Note 2: The amount for 2002 renewable technologies includes and additional \$75 million as set forth in PUC § 381 (c) (3).

Source: AB 1890, Section 10, addition to P.U. Code Chapter 2.3, § 381, D. 97-02-014, p. 58, P.U. Code § 399.8, Resolution E-3792.

Electric Rate Design

The utilities proposed the initial public purpose program electric revenue requirements as part of the unbundling proceeding, which were adopted in D.97-08-056. Through the inclusion of other Commission authorized amounts, functionalized for rate recovery purposes as public purpose program costs, the revenue requirement was expanded to a public purpose program charge (PPPC). As a result, no “PGC rate component” technically exists. D. 97-08-056 also adopted PG&E’s proposed System Average Percent Change (SAPC) method for allocating costs of public purpose programs to customer classes for the purpose of rate design, finding that it was closest to current cost allocation methods and therefore accommodated AB 1890’s prohibition against cost shifting. Under the SAPC method, CARE program costs are allocated first on an equal cents per kilowatt hour basis, then the remainder is allocated according to the percentage share of the schedule’s current revenue requirements relative to the total present revenue requirement. The utilities were required to file tariffs within 15 days reflecting the approved revenue requirements and allocating costs of public purpose programs using the system average percent method. The original rate was based upon the approved revenue requirement and projected test year sales in applicable rate schedules and was expressed in terms of cents per kWh. Subsequently, this rate was applied to applicable energy sales as sales volume fluctuated during the years of the audit. An example of the SAPC methodology is shown in **Exhibit III-5**, which summarizes PG&E’s allocation of its 1998 PPP revenue requirements to different customer classes.

Exhibit III-5: Under the SAPC Methodology, PG&E’s January 1, 1998 PPP Revenues are Allocated to Customer Classes Based on the Relative Share of Revenues Based on 1996 Rates (Dollars in Thousands)

Customer Class	CARE Revenue Requirements Total = \$30,997			Non-CARE PPP Revenue Requirements Total = \$241,847			Total PPP Revenues = \$272,844
	Total Sales Subject to CARE Surcharge (GWh)	CARE Surcharge Rate (\$/MWh)	CARE Surcharge Revenues	Revenues at 1/1/96 Rates	% of Revenues based on 1996 Rates	Allocated Non CARE PPP Revenues	
	(A)	(B)	(C)= (A) X (B)	(D)	(E) = % of \$7,693M	(F)= (E) X \$241.8M	(G)=(C)+(F)
Residential	24,811	0.418	\$10,363	\$3,173,008	41%	\$99,746	\$110,109
Small Light and Power	7,264	0.418	3,034	924,443	12%	29,061	32,095
Medium Light and Power	21,200	0.418	8,855	2,011,168	26%	63,223	72,077
Large Light and Power	16,941	0.418	7,076	1,118,664	15%	35,166	42,242
Other	3,995	0.418	1,669	466,090	6%	14,652	16,321
Total	74,211		\$30,997	\$7,693,373	100%	\$241,848	\$272,844

Source: PG&E Allocation of PPP Revenues provided in Document Response PGE-IDR-10; blueCONSULTING Analysis.

On December 22, 1998, SDG&E and ORA filed a stipulation which provided that for small and residential customers, public purpose program costs are allocated using the SAPC method and the frozen rate levels without adjustment for the 10 percent rate reduction. The Commission adopted the stipulation in D. 99-06-058. A similar stipulation was adopted for SCE. The PG&E stipulation indicated that the portion of the public purpose program charge which did not include the CARE surcharge would be allocated using the SAPC method.

PG&E and SCE remained on the rate freeze throughout the audit period. SDG&E left the rate freeze on July 1, 1999, and filed a new cost of service based rate case before the end of 1999. Distribution and Transmission rates were adjusted in accordance with the order in this proceeding, although the PPC rate was left unchanged.

Electric Balancing Accounts

AB 1890 directed the Commission to establish appropriate accounts and rate-setting procedures associated with the collection of unbundled revenues. On December 16, 1997 the Commission ordered the electric IOUs to establish a Transition Revenue Account (TRA) as a Residual Calculation Account for the purpose of matching the amount of billed revenues against the amount of the separated revenue requirement and Commission-approved obligations. These revenues and costs were to be tracked in the TRA account, with the stipulation that at no time would utility rates become greater than a stipulated “rate freeze” amount (per AB 1890). Thus, while rate components of each of the sub-accounts within the TRA could be adjusted from year to year, the total of all sub-account rates (including public purpose accounts) were not permitted to be higher than the frozen rate. Any overcollection (i.e., residual collections) remaining in the TRA after sub-accounts were balanced became part of what was termed “headroom” and was to become available to utilities to pay for their transition costs.

In D. 96-12-077 the Commission created the Revenue Adjustment Proceeding (RAP) to review, track and compare the utilities’ authorized revenue requirement (costs) with actual recorded revenues and to approve any necessary adjustments or updates to authorized revenues. In D. 97-10-057 the Commission further defined the RAP as the appropriate proceeding to consider the necessity for certain memorandum and balancing accounts established to identify costs incurred and revenues collected during the rate freeze period. A May 14, 1998 Coordinating Commissioner’s Ruling (CCR) clarified the general scope of the RAP and expanded the scope to include revenue allocation and rate design issues, and verification and adjustment of the headroom calculated in the TRA.

Regulatory Requirements - Gas

Prior to the passage of AB 1002 (PU Code §§ 890-900) effective January 1, 2001, PGC collections were embedded in the transportation rate. In February 1997, the Commission established a formula for continuation of a pre-1998 customer rate charge on natural gas consumption to fund gas energy efficiency demand-side management (DSM) programs through 1998. Natural gas energy efficiency program funding continued under this formula from 1998 through 2000. From 1998 through 2000, the utilities included gas PPP revenue requirements in the determination of the transportation rate; however, what appeared on customer bills was the aggregate gas transportation rate. On January 1, 2001, in accordance with AB 1002, utilities were required to segregate the gas PPC rate and establish a separate gas surcharge. The initial surcharge rates were based on the authorized costs of public purpose programs currently in rates.

On December 21, 2000, the Commission approved the initial gas surcharge rate for PG&E, SDG&E and SCG (Resolution G-3303). The rates were determined based on the authorized costs of public purpose programs currently in each utility's rates. Although the surcharge went into effect on January 1, 2001, it was not required to appear on customer bills until July 1, 2001.

The rates adopted by the Commission in Resolution G-3303 were also to be used to remit payments to the California State Board of Equalization (BOE). Sections 892 and 893 of the PU Code designate the BOE as the administrator of gas surcharge funds and require gas corporations to forward collected funds to the Board on a quarterly basis, beginning January 1, 2001. Collections are remitted to the State Board of Equalization and reimbursed to the utility following documentation and approval of related expenditures. Utilities submit payments (revenues) to the BOE using Commission approved rates and submit quarterly claims for reimbursement of expenses. Under this procedure, collections have been sporadic and have lagged expenditures. The utilities were required to use the rates adopted in G-3303 for payments to the BOE. The BOE rates were the same as the rates charged to the utility customers on January 1, 2001; however, the rates charged to customers could change during the year as a result of changes in revenue requirements, whereas the rate for BOE payments did not. As a result, amounts billed to customers may differ from amounts paid to the BOE. On December 11, 2001 the Commission again adopted the gas surcharge rate for payments to the BOE for 2002 (Resolution G-3329). Similar to electric, gas PPP revenues are also tracked in balancing accounts.

4. Audit Procedures

The following procedures were performed in this audit area:

- Reviewed Commission decisions and Resolutions, Company Advice Letters and supporting work papers and other relevant documents.
- Reviewed systems and controls over revenue reporting.
- Determined whether initial and subsequent PGC and gas surcharge rates were developed in accordance with Commission requirements, properly computed and reflected in the utility's tariffs.

- Determined the portion of PGC billed revenues associated with each of the components of the PGC based on total billed revenues and each component proportion of the approved revenue requirement:
 - ⇒ Energy Efficiency
 - ⇒ RD&D
 - ⇒ Renewables
 - ⇒ Low income energy efficiency
 - ⇒ CARE
- Analyzed the balancing account treatment of gas and electric PGC revenues.
- Reviewed payments to and collections from the State Board of Equalization.
- Prepared a task report in this area.

5. Sampling Techniques

Not applicable to this area of audit investigation.

C. PG&E

1. Conclusions

Revenue Requirements and Rate Design - Electric

C1. PG&E's initial electric PPP rates were developed in accordance with the Commission's requirements, properly computed, and reflected in the utility's tariff.

- PG&E's PPP rates, effective January 1, 1998, were developed using the Commission-approved PPP revenue requirements.

⇒ As described in the Background section, in D. 97-02-014, the Commission adopted the following minimum annual funding levels for PG&E's public purpose programs for the period 1998-2001. These funding levels were originally established in AB 1890:

**Exhibit III-6: AB 1890 set PG&E's Minimum Annual Electric Funding Levels for 1998 to 2001 at \$184 Million
(Dollars in Millions)**

Program	Annual Funding Requirement
Cost-effective energy efficiency and conservation	\$106.0
RD&D	30.0
Renewable technologies	48.0
Subtotal	\$184.0
Low-income energy efficiency	Not less than 1996 authorized levels based on an assessment of customer need.
California Alternative Rates for Energy (CARE)	Not less than 1996 authorized levels based on an assessment of customer need.

Source: D.97-02-014

⇒ In compliance with D. 97-08-056 and Resolution E-3510, PG&E filed Advice Letter 1692-E-D which included unbundled PPP rates for each rate schedule. These rates were based on a \$269.9 million revenue requirement amount that was adopted in D. 97-08-056, as shown in **Exhibit III-7**.

**Exhibit III-7: In D. 97-08-056, the Commission Authorized \$269.9 Million for PG&E's Electric Public Purpose Program Costs
(Dollars in Thousands)**

Line Item	Total
Energy Efficiency	\$128,344
RD&D	37,413
Renewables	48,000
1997 Cost of Capital Adjustment	(13)
Annual Earnings Adjustment Proceeding	27,390
CARE	28,739
Total	\$269,873

Source: Work papers from A.96-12-009 adopted D.97-08-056
(Document Provided in Interview JWC-002.)

⇒ The PPP revenue requirement used for the basis of the rates filed in Advice Letter 1692-E-D is \$272.8 million, as shown in **Exhibit III-8**. This amount differs from the amount listed in D. 97-08-056 due to adjustments in the CARE amounts, the Conservation Financing Adjustment (CFA), and the 1998 cost of capital adjustment.

**Exhibit III-8: In Advice Letter 1692-E-D, Effective January 1998, PG&E's Electric Public Purpose Program Revenue Requirement was nearly \$273 Million
(Dollars in Thousands)**

Line Item	Amount
Amount Adopted in D. 97-08-056	\$269,873
Conservation Financing Adjustment (CFA)	1,518
1998 Cost of Capital Adjustment	(105)
Increase in CARE Amount	1,558
Total PPP Unbundled Revenue Requirement	\$272,844

Source: Advice Letter 1692-E-D Attachment II – Unbundled Revenue Requirements. (Document Provided in Interview JWC-002.)

- The PPP rates included in Advice Letter 1692-E-D, effective January 1, 1998, were properly computed for each customer class.
- ⇒ In developing the PPP rates, the cost of the public purpose programs was allocated using the required SAPC method. The CARE program costs were allocated first on an equal cents per kilowatt-hour (kWh) basis. The remainder was allocated according to the percent share of the schedule's present revenue requirements relative to the total present revenue requirements.
- Although Advice Letter 1692-E established PPP rates, these rates were not shown on customer bills, and PG&E did not use these rates to track PPP revenue until after the August 1999 installation of an enhanced customer billing system that had the capability to provide unbundled bills in accordance with Commission directives.

C2. PG&E's electric PPP rates were revised four times between January 1, 1998 and December 31, 2002. blueCONSULTING's review of PG&E's rate calculations and the supporting material associated with those filings determined that the rates were properly computed.

- A summary of PG&E's PPP rate changes in the period January 1, 1998 through December 31, 2002 is shown in **Exhibit III-9** below.

Exhibit III-9: PG&E Electric PPP Rates Changed Four Times from January 1, 1998 through December 31, 2002

Billing Implementation Date	Revenue Requirement Effective Date	Advice Letter	Decision	Proceeding	Change
1/1/1998	1/1/98	1692-E-D	D.97-09-056	Cost Separation	Initial unbundled PPP rate.
Rate Changes					
2/29/2000	1/1/1999 1/1/99 and 5/31/99	1972-E	D.99-06-058 D.00-02-046	1998 RAP 1999 GRC	Administrative & General (A&G) no longer included in electric energy efficiency program costs. (Remained effective through audit period.) CARE amount revised.
2/26/2001	1/1/2000 through 6/29/2000	2078-E	D.01-10-019 D.00-06-040	1999 RAP 2000 Cost of Capital	Increased CARE administrative cost amount. \$14,000 increase in Non-CARE PPP revenue requirement
7/1/2001	7/1/2001	2126-E	D.01-06-010		Increase CARE discount to 20%.
1/1/2002	1/1/2002	2187-E	Various	1/1/02 Consolidation filing	Removed CARE administrative costs from PPP. SBX2 2 authorizes recovery in balancing account mechanism.

Source: 2003 PGC Audit List of Rate Changes and Associated Billing Implementation Dates, Advice Letters and Associated Work Papers (Documents Provided in Interview PGE-JWC-002).

- PG&E used the proper revenue requirements to calculate PPP rates in the period 1999 to 2002.
 ⇒ The Non-CARE revenue requirements which were used for ratemaking in the period 1999 through 2002 were identified in D. 00-02-046, PG&E's 1999 General Rate Case (GRC) Decision. The amounts adopted in the GRC differ from the amounts listed in AB 1890 due to the inclusion of Franchise Fees and Uncollectibles (FF&U) and other adjustments. **Exhibit III-10** (following) provides a comparison of the AB 1890 revenue requirement and the amounts approved in the 1999 GRC.

**Exhibit III-10: PG&E's 1999 GRC Indicated that PG&E's Non-CARE Electric PPP Revenue Requirements Totaled \$200 Million
(Dollars in Thousands)**

	AB 1890	1999 GRC
EE Programs	\$106,000	\$107,449
RD&D	30,000	30,177
Renewables	48,000	48,411
Subtotal	\$184,000	\$186,037
LIEE	Not less than 1996 authorized levels	14,269
CARE Admin	Not less than 1996 authorized levels	511
Total		\$200,818

Source: AB 1890 and D. 01-01-019, Appendix D.

⇒ With the exception of CARE administrative costs, and the \$14,000 cost of capital adjustment approved in D. 00-06-040, the revenue requirements listed in the 1999 GRC decision remained constant for ratemaking purposes in the period 1999 through 2002. Changes to the CARE Administrative revenue requirements are listed in **Exhibit III-11** below. Note that there is often a timing difference between the effective date of the revenue requirement and the billing implementation dates as Commission decisions often have retroactive effective dates.

**Exhibit III-11: PG&E's Electric CARE Admin Revenue Requirements from 1999 to 2002 Totaled \$1.7 Million
(Dollars in Thousands)**

Revenue Requirement Effective Date	Billing Implementation Date	CARE Admin Revenue Requirement	Discussion	Source
1/1/99	2/9/00	\$511	Did not revise rates to reflect this revenue requirement	Advice Letter 1972-E 1999 GRC D.00-02-046
1/1/00	2/26/01	1,219	Revised CARE program year 2000 budget	Advice Letter 2032-E 1999 RAP
1/1/02	1/1/02	0	Established CARE administrative provisions in the CARE Balancing Account	D.09-02-021 Advice Letter 2187-E

Source: Rates and Revenue Requirements Documents Provided in Interview PGE-JWC-002, and follow-up discussions.

⇒ The Commission's total authorized non-CARE PPP revenue requirements for the period 1999 through 2002, as well as the revenue requirements used for PPP rate calculations are listed in **Exhibit III-12**.

**Exhibit III-12: There were \$285 Million of PG&E Electric PPP Revenue Requirements Included in Rates During 1998-2002
(Dollars in Thousands)**

	Billing Implementation Date				
	1/1/98	2/29/2000	2/26/2001	7/1/2001	1/1/2002
Revenue Requirements					
Energy Efficiency (EE + LIEE)		\$121,719	\$121,719	\$121,719	\$121,719
RD&D		30,177	30,177	30,177	30,177
Renewables		48,411	48,411	48,411	48,411
Cost of Capital Adjustment [Note 2]			14	14	14
CARE Administration		511	1,219	1,219	
Total Non-CARE Revenue Requirement	\$272,844	\$200,818	\$201,540	\$201,540	\$200,321
Revenue Requirements used in Rate Calculations					
Non-CARE PPP Revenue Requirement		\$200,291 [Note 1]	\$201,539	\$201,539	\$200,321
CARE Surcharge		31,376	29,308	56,257	85,213
Total	\$272,844	\$231,667	\$230,847	\$257,796	\$285,534

Note 1: This amount differs from the \$200,818 revenue requirements provided in **Exhibit III-10** due to an error in the rates calculation. The correct amount is \$200,818. This \$527,000 difference in revenue requirements had no material impact on PPP rates.

Note 2: PG&E included the \$14,000 adjustment for the 2000 cost of capital decision in rates in Advice Letter 1972-E.

Source: Advice Letters 1972-E, 2078-E, 2126-E, 2126-E and supporting work papers (Provided in Interview JWC-001). Summary of PPP Revenue Requirements (Data Response JWC-PGE-001).

⇒ The CARE surcharge revenue requirements were calculated correctly in the audit period. blueCONSULTING verified that the CARE revenue requirements were added to the PPP revenue requirements and an off-setting entry was subtracted from the distribution revenue requirement calculations.

- In the period 1999 to 2002, the PPP rates were properly computed for each customer class, using the SAPC methodology.

C3. Although Resolution E-3792, issued December 17, 2002, increased PG&E's PPP revenue requirements by \$21.1 million, Resolution E-3792-E required PG&E to file the changes to the PPP rates to reflect the adopted revenue requirement in Phase 1 of PG&E's 2003 General Rate Case.

- Resolution E-3792, effective of January 1, 2002, re-allocated the RD&D and Renewable program cost among the utilities and increased PG&E's RD&D and Renewable revenue payments to the California Energy Commission (CEC) by \$21.1 million as shown below.

**Exhibit III-13: Resolution E-3792 Increased PG&E's AB 1890 Non-CARE 2002 Electric PPP Funding Requirements by \$21 Million
(Dollars in Millions)**

	AB 1890	E-3792	Increased Funding Requirement
RD&D	\$48.0	\$67.7	\$19.7
Renewables	30.0	31.4	1.4
Total	\$78.0	\$99.1	\$21.1

Source: Resolution E-3792 and AB 1890.

- As cited in R-3792, the Public Utilities (PU) Code §399.8(c)(2) specifies that the rates used to collect these increased funds may not exceed the rates used as of January 1, 2000 to collect those RD&D and Renewable monies. R-3792 proposes to reallocate the funding consistent with the rate caps, by combining the rates in effect on January 1, 2000 with the forecasted sales for each rate category.
- PG&E filed Advice Letter 2325-E, with a requested effective date of January 1, 2003 to revise PPP rates to reflect the revised revenue requirements adopted in Resolution E-3792. The Commission rejected the advice letter and required PG&E to file revisions to rates in PG&E's 2003 General Rate Case.

Regulatory Accounts - Electric

C4. The PPP revenue requirements recorded in the TRA understate the PPP revenue requirements by \$211,000 during the period 1998 through 2002 due to the inclusion of an incorrect amount for CARE administrative costs in 2001.

- In compliance with Advice Letter 2119-E, PG&E records the monthly PPP revenue requirement in the TRA. The purpose of the TRA is to match the amount of billed revenues against the amount of the separated revenue requirement and Commission-approved obligations. This matching process facilitates determination of billed Competition Transition Charge (CTC) revenues, which will be transferred to the TCBA to ensure dollar-for-dollar recovery of public purpose program cost.
- A comparison of the PPP revenue requirements recorded in the TRA and the Commission authorized revenue requirements is shown in **Exhibit III-14**.
 - ⇒ In the period January 1999 through January 2000, PG&E initially used a \$231.8 million annual PPP revenue requirements as the basis for its TRA entry. In post period adjustments made in February 2002, PG&E revised this amount to \$200.8 million, the amount approved in the 1999 GRC decision, D.00-02-046.

⇒ As previously shown in Exhibit III-11 and Exhibit III-12, the 1999 RAP increased the CARE administrative revenue requirement by \$708,000, from \$511,000 to \$1.2 million. As shown in **Exhibit III-14**, in 2001, PG&E erroneously increased the CARE administrative revenue requirement by \$503,000 rather than \$708,000.

Exhibit III-14: Comparison of Annual Electric PPP Revenue Requirements Recorded in PG&E's TRA and Commission-Authorized PPP Revenue Requirements 1998-2002
(Dollars in Thousands)

Year	Commission Authorized PPP Revenue Requirement	Effective Annual PPP Revenue Requirement in TRA after Post Period Adjustments	Difference	Explanation
1998	\$272,844	\$272,844		
1999	200,817	200,817		
2000	201,538 [Note 1]	201,532	6	PG&E erroneously did not include \$14,000 cost of capital increase in February through May.
2001	201,539	201,334	205	PG&E included \$503,000 for CARE Admin increase rather than \$708,000.
2002	221,628	221,628	0	
Total	\$1,098,366	\$1,098,155	\$211	

Note 1: Average annual revenue requirement based on annual requirements of \$201,526,000 in January 2000 and \$201,539 the remainder of the year.

Source: Monthly TRA Statements (Document Request PGE-IDR-1.9); Revenue Requirement Work Papers and Follow-up Discussion Document to JWC-001.

C5. The PPPEEBA balancing account properly includes the \$106 million annual energy efficiency revenue requirement for Program Years 1998 through 2002.

PPPC Revenues - Electric

C6. Prior to September 1999, PG&E was not able to report unbundled revenues by customer class due to limitations in its customer information system (CIS).

- PG&E's electric and gas billed revenue information is reported in the Electric and Gas History Reports of Revenue Sheets (EH and GH Sheets) which are generated by the Revenue Reporting system, based on information from the Customer Information System.

- PG&E had three different customer information systems in place during the 1998 to 2002 audit time period.

⇒ 1965 to August 1999 – Legacy Customer Information System (LCIS)

⇒ August 1999 to November 27, 2002 – Genesis/LCIS.

⇒ December 5, 2002 to present – CorDaptix.

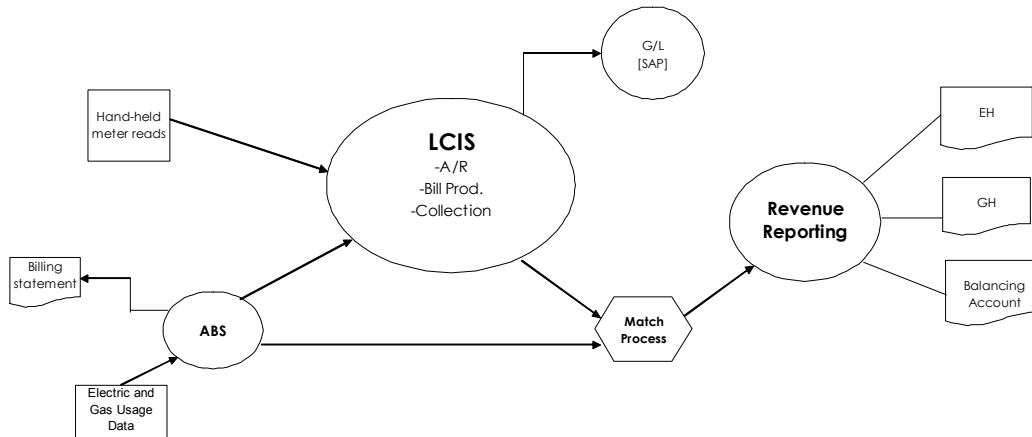
- The flow of customer usage data to the Customer Information System remained essentially the same throughout the audit period. Electric and gas meter readings are input directly to Customer Information System or the Advanced Billing System (ABS) on a daily basis. ABS is an additional billing engine which handles certain commercial and industrial accounts. Gas and electric demand data is uploaded to the Customer Information System for inclusion in revenue reporting.
- The flow of information between the billing, customer information, and revenue reporting systems changed during the course of the audit period, as shown in **Exhibit III-15**.

⇒ **LCIS – 1965 to August 1999.** LCIS collected data on accounts receivable, billed production and collection. ABS was then used to generate customer's billing statement since ABS was the source of billed revenue. There was no automated interface between LCIS and the general ledger accounting system. Data from LCIS was transferred to general ledger accounting system, SAP, for billed revenue. On a daily basis, LCIS and ABS were processed to match the information and later transferred to Revenue Reporting system. The Revenue and Statistics group downloaded revenue by class of service and rate schedule from LCIS and prepared the input to SAP. The Revenue Accounting group reviewed the general accuracy of revenues through trend analysis to identify exceptions and posted the transactions to the general ledger.

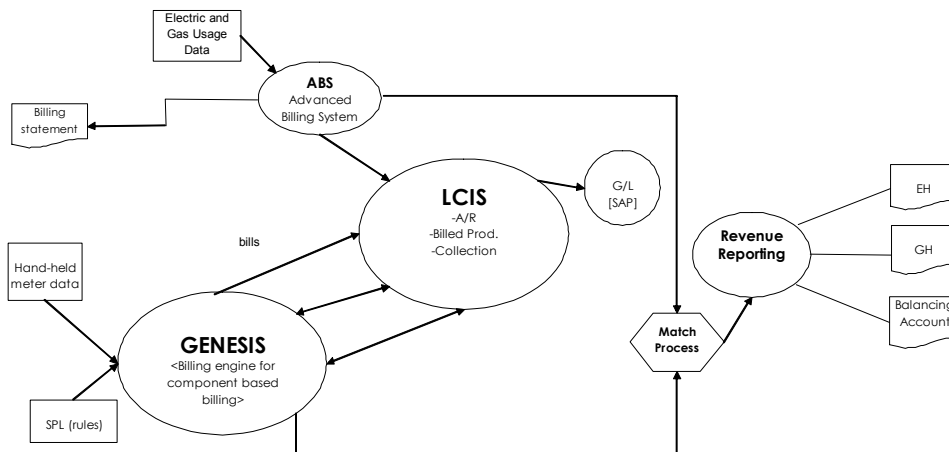
⇒ **Genesis/LCIS – September 1999 to November 2002.** In August 1999, PG&E installed the Genesis billing engine which provided PG&E with the capability to provide unbundled bills in accordance with Commission directives. While there were additional exchanges of information between the LCIS and Genesis systems, the overall process of posting revenues to the General Ledger and transfer of information to revenue reporting remained essentially the same. However, the data used in the matching process now came from ABS and Genesis, rather than the LCIS system.

Exhibit III-15: PG&E Had Three Different Customer Information Systems in Place During the 1998 to 2002 Audit Period

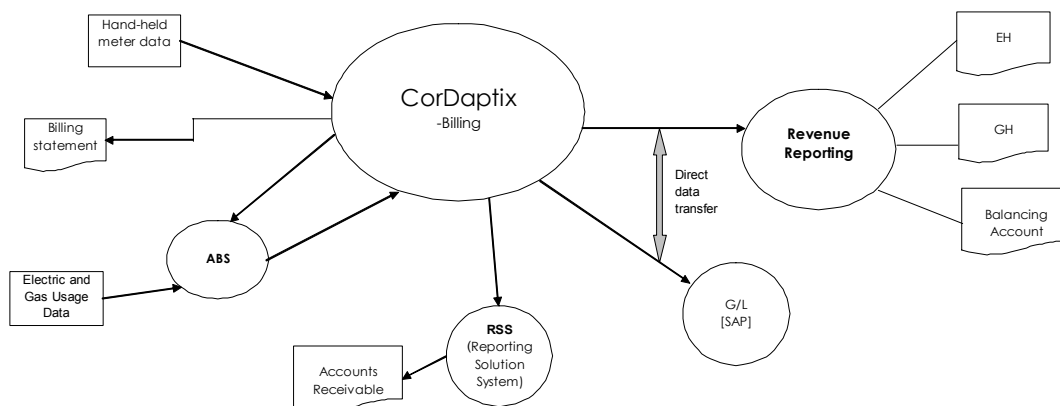
1965 – August 1999



August 1999 to November 2002



December 2002 to Present



⇒ **CorDaptix – December 2002 to Present.** In December, 2002, PG&E introduced a new customer information system known as CorDaptix. CorDaptix is a real-time on-line billing system developed by SPL WorldGroup. CorDaptix uses five views of customer information such as customer, account, premises, service point and service agreement to access customer information. The billing process has not changed during the CorDaptix era; however, the transfer of data from billing to revenue reporting changed. A direct interface between CorDaptix and the Revenue Reporting system now exists. Other significant changes include the extraction of revenue information directly from SAP to the Revenue Reporting system and incorporation of RSS (Reporting Solution System), which is used for A/R ledger, supports operational reports and validates information on a daily basis.

C7. blueCONSULTING's analysis indicates that during the period 1998 through 2002, PG&E billed approximately \$39.2 million (3 percent) more than the authorized \$1.1 billion electric PPP revenue requirements for this period. CARE costs were undercollected by an estimated \$35.3 million, and non-CARE costs were overcollected by an estimated \$74.6 million. Differences occur as a result of changes between forecast sales volumes used in the development of rates and actual sales.

- A comparison of electric PPP billed revenues and revenue requirements is shown below.

Exhibit III-16: There is a \$39 Million Overcollection of PG&E's Electric PPP Billed Revenues and Revenue Requirements from 1998-2002
(Dollars in Thousands)

	1998 [Note 1]	1999 [Note 1]	2000	2001	2002	Total
PG&E PPP Billed Revenues						
CARE	\$29,915	\$29,712	\$32,597	\$45,417	\$59,555	\$197,196
Non-CARE	234,407	237,483	221,228	201,556	226,607	1,121,281
Total PPP Revenues	\$264,323	\$267,195	\$253,825	\$246,973	\$286,162	\$1,318,477
PPP Revenue Requirements						
CARE	\$30,297	\$31,376	\$29,308	\$56,257	\$85,213	\$232,451
Non-CARE	242,547	200,818	201,526	201,526	200,307	1,046,724
Total PPP Revenues	\$272,844	\$232,194	\$230,834	\$257,783	\$285,520	\$1,279,175
PG&E PPP Over-collection						
CARE	\$(382)	\$(1,664)	\$3,289	\$(10,840)	\$(25,658)	\$(35,255)
Non-CARE	(8,140)	36,665	19,702	30	26,300	74,557
Total PPP Revenues	\$(8,521)	\$35,001	\$22,991	\$(10,810)	\$642	\$39,302

Note 1: blueCONSULTING calculated amounts.

Source: Revenue Requirements from Exhibit III-12. Billed Revenue data calculated and compiled by blueCONSULTING and verified in Data Response PGE-EAL-30.

- **Exhibit III-17** and **Exhibit III-18** list PG&E CARE and non-CARE PPP Revenues by customer class. Billed revenue data for 1998 and 1999 was calculated by blueCONSULTING using a methodology developed and verified by PG&E. The data for 2000 through 2002 is taken from PG&E's monthly revenue reports.

⇒ The calculation of 1998 and 1999 PPP electric revenues by customer class uses electronic revenue data compiled by PG&E as part of its determination of Rate Group Transition Cost Obligation Memorandum Account (RGTCOMA) amounts and revenue percentages for each rate schedule which were provided by PG&E for the purpose of this audit. blueCONSULTING did not use the same PPP and CARE percentages as PG&E used in the RGTCOMA determination (the percentages shown in Part AW), as these percentages were applied to revenue absent the 10 percent rate reduction and direct access revenue.

**Exhibit III-17: From 1998-2002, 35% of PG&E's \$197 Million in Estimated CARE Revenues were Collected from its Residential Customers
(Dollars in Thousands)**

Customer Class	1998	1999	2000	2001	2002	Total	Percent
Residential	\$10,518	\$10,775	\$12,082	\$15,362	\$20,220	\$68,956	35%
Small Light and Power	2,914	3,097	3,266	4,515	5,814	19,606	10%
Medium Light and Power	8,837	8,777	9,420	13,345	18,499	58,878	30%
Large Light and Power	5,735	5,286	6,148	9,494	11,656	38,318	19%
Agricultural	1,385	1,507	1,542	2,451	2,979	9,865	5%
Street Lighting	5	5	43	47	58	159	0%
Other Sales to Public Authorities	18	23	41	111	242	435	0%
Railroads and Railways	46	57	10	12	(15)	109	0%
Resale	396	123	-	-	-	519	0%
Interdepartmental	61	61	46	80	103	350	0%
Total Billed CARE PPP Revenues	\$29,915	\$29,712	\$32,597	\$45,417	\$59,555	\$197,196	100%

Source: blueCONSULTING calculation; Data Responses EAL-13 and EAL-14.

**Exhibit III-18: From 1998-2002, 42% of PG&E's \$1.1 Billion in Estimated Non-CARE Revenues were Collected from its Residential Customers
(Dollars in Thousands)**

Customer Class	1998	1999	2000	2001	2002	Total	Percent
Residential	\$100,997	\$103,455	\$91,507	\$80,883	\$92,784	\$469,627	42%
Small Light and Power	27,646	29,356	26,917	25,250	29,154	138,324	12%
Medium Light and Power	62,879	62,638	60,648	55,020	64,090	305,274	27%
Large Light and Power	29,193	27,063	28,602	26,514	26,627	138,000	12%
Agricultural	11,018	12,318	11,049	11,464	12,792	58,641	5%
Street Lighting	1,610	1,547	1,403	1,305	1,206	7,071	1%
Other Sales to Public Authorities	81	101	165	205	649	1,201	0%
Railroads and Railways	181	57	633	612	(1,052)	432	0%
Resale	396	500	-	-	-	896	0%
Interdepartmental	405	447	303	303	356	1,815	0%
Total Billed Non-CARE PPP Revenues	\$234,407	\$237,483	\$221,228	\$201,556	\$226,607	\$1,121,281	100%

Source: blueCONSULTING calculation; Document Responses EAL-13 and EAL-14.

- ⇒ The 1998 and 1999 PPP revenues should be considered estimates, as they were based on percentages of billed revenue.
- ⇒ Although PG&E did not track PPP revenues in 1998 and 1999, it did track CARE revenues in that period. A comparison of the CARE revenues derived using the above methodology and the CARE revenue reported in PG&E's revenue reports is shown below. We believe the calculated results are adequate for the purpose of our audit.

**Exhibit III-19: Comparison of Electric PPP CARE Revenues Reported by PG&E and Calculated by blueCONSULTING for this Audit 1998-1999
(Dollars in Thousands)**

Year	PG&E Revenue Report	blueCONSULTING Calculation	Calculated Percent of Actual
1998	\$31,170	\$29,915	96%
1999	\$32,548	\$29,712	91%

Source: Electric Revenue Component Reports (Document Response PGE-CA-1.3); blueCONSULTING analysis.

Revenue Requirements and Rate Design - Gas

C8. With the exception of the improper inclusion of CEE shareholder incentive revenue requirements, discussed further in Conclusion C9, PG&E's gas PPP rates were calculated correctly.

- PG&E's gas PPP rates were revised eight times between January 1, 1998 and December 31, 2002.
- ⇒ Prior to the passage of AB1002 effective January 1, 2001, PGC collections were embedded in the transportation rate. From 1998 through 2000, the utilities included gas PPP revenue requirements in the determination of the transportation rate; however, what appeared on customer bills was the aggregate gas transportation rate. On January 1, 2001, the gas PPP rate was separated from the gas transportation rate through the establishment of a gas surcharge.
- ⇒ As shown in **Exhibit III-20**, only four of the rate revisions were to reflect changes in Commission-authorized revenue requirements; all of the revisions reflected changes in the CARE subsidy.

Exhibit III-20: There were 8 Revisions to the Annual Revenue Requirements Included In PG&E's Gas PPP Rates 1998-2002
(Dollars in Thousands)

PPP Rate Start Date	Advice Letter	Energy Efficiency	Social/ Environ	Subtotal	Shareholder Initiative	Total with Shareholder Incentive	CARE	Total
1/1/98	2055-G	\$27,922	\$8,588	\$36,510	\$3,779	\$40,289	\$6,815	\$47,104
Rate Changes								
3/1/98	2065-G	27,922	8,588	36,510	3,779	40,289	8,339	48,628
9/1/98	2099-G	27,922	8,588	36,510	2,139	38,649	11,625	50,274
1/1/99	2119-G	27,922	8,588	36,510	2,139	38,649	11,640	50,289
3/1/00	2217-G	27,922	6,605	34,527	(263)	34,264	9,348	43,612
6/1/00	2237-G	27,922	6,605	34,527	(263)	34,264	9,521	43,785
1/1/01	2281-G	27,922	6,633	34,555	(263)	34,292	9,524	43,816
7/1/01	2317-G	27,922	6,633	34,555	(263)	34,292	17,269	51,561
1/1/02	2357-G	27,922	6,497	34,419	607 [Note 1]	35,026	32,864	67,890

Note 1: Included in error. See Conclusion C9.

Source: Gas PPP Rate Calculation Worksheets (Received in Interview PGEC-JWC-001); Explanation of Revenue Requirements Used in Calculations (Data Response PGE-EAL-29).

- There were two non-CARE gas PPP revenue requirement amounts during the audit period as shown below.

Exhibit III-21: There Were Only Two Different Non-CARE Revenue Requirements Used in PG&E's Gas PPP Rates
(Dollars in Thousands)

Dates	DSM	CARE Admin	R&D	A&G, Taxes, and Depreciation	Cost of Capital Adjustment	Total	Decision
1/1/98 - 8/1/98						\$36,510	1996 GRC, D.95-12-055 and 1998 Cost of Capital Proceeding
9/1/98 – 2/28/00						\$36,510	1998 Biennial Cost Allocation, D.98-06-073
3/1/00 - 12/31/02	27,921	355	1,626	4,489	28	34,419	1999 GRC, D. 00-02-046 Cost of Capital Proceeding, D.00-06-040, Resolution E-3669

Source: Explanation of Revenue Requirements Used in Calculations (Data Response PGE-EAL-29).

- A comparison of the non-CARE revenue requirements used in rates and authorized by the Commission is shown in **Exhibit III-22**. In the period March 1, 2000 through December 31, 2001, there is a difference between Commission authorized revenue requirements and the revenue requirements included in rates, due to a timing difference.
 - ⇒ In 2000 and 2001 there is a negative \$136,000 difference between the PPP revenue requirements to develop rates and those authorized in Commission decisions. This amount was included in the gas revenue requirement but not included in rates pursuant to language in Resolution E-3669 that adjusted the 1999 GRC for the results of the complete income tax version of the Results of Operations Model. The resolution was approved on September 20, 2001 and authorized PG&E to reflect the gas revenue requirement change in its next True-up or Biennial Cost Allocation Proceeding (BCAP). PG&E reflected the adjustment in rates effective January 1, 2002 in advice letter 2357-G.
 - ⇒ Also beginning March 1, 2000, the \$136,000 decrease was partially offset by a \$28,000 revenue requirement increase due to the Commission's ruling in PG&E's 2000 Cost of Capital proceeding (D. 00-06-040). The amount was not reflected in PG&E's rates until January 1, 2001 (Advice Letter 2281-G).

Exhibit III-22: Due to Timing Differences, There is a Difference Between the Revenue Requirements used in PG&E's Gas PPP Rates and the Commission Authorized Revenue Requirements in the Period 1998 to 2002
(Dollars in Thousands)

Revenue Requirements in Gas PPP Rates			Authorized Revenue Requirement		Difference
Advice Letter	Effective Date	Total	Decision	Total	
2055-G	1/1/98	\$36,510	1996 GRC and 1998 Cost of Capital Proceeding	\$36,510	\$0
2065-G	3/1/98	36,510		36,510	0
2099-G	9/1/98	36,510		36,510	0
2119-G	1/1/99	36,510		36,510	0
2217-G	3/1/00	34,527	1999 GRC 2000 Cost of Capital Proceeding	34,419	(108)
2237-G	6/1/00	34,527		34,419	(108)
2281-G	1/1/01	34,555		34,419	(136)
2317-G	7/1/01	34,555		34,419	(136)
2357-G	1/1/02	34,419		34,419	0

Source: PG&E Reconciliation of Revenue Requirements (Data Response EAL-PGE-29.4)

- The CARE revenue requirements were calculated by PG&E based on the:
 - ⇒ Projected CARE subsidy
 - ⇒ CARE balancing account over-or under-collection amounts
 - ⇒ CARE A&G Costs (1998 – 2001). CARE Administrative expenses were recovered in the CARE balancing account effective January 1, 2002.

C9. During the audit period, PG&E erroneously included an amount for CEE shareholder incentives in its PPP surcharge rates rather than in its core gas transportation rates; however this has no net effect on PG&E's ratepayers.

- As shown in Exhibit III-20 above, PG&E included an amount to recover shareholder incentives in its determination of PPP rates during the audit period. These CEE shareholder incentive amounts are established in the Annual Earnings Assessment Proceedings (AEAP). The shareholder incentives are to be included in transportation rates applicable to PG&E's core gas customers, and these amounts should not be included in the determination of PPP rates.

**Exhibit III-23: CEE Shareholder Incentive Amounts Were Erroneously Included in PG&E's Gas Public Purpose Program Rates as Opposed to Transportation Rates from 1998-2002
(Dollars in Thousands)**

Billing Period	CEE Shareholder Incentive Amount	Decision
January 1, 1998 - August 31, 1998	\$3,779	D.96-12-079
September 1, 1998 - February 29, 2000	2,139	D.98-03-063
March 1, 2000 - December 31, 2001	(263)	1998 AEAP, D.99-06-052
January 1, 2002 - December 31, 2002	607	1999 AEAP, D.03-08-028

Source: Rate Calculation Worksheets (Provided in Interview PGE-JWC-001), Data Response PGE-EAL-29.2)

- The inclusion of the CEE-shareholder incentive amount has no impact on the total rates charged to customers. The PPP revenue requirements are subtracted from distribution base revenue requirements for rate calculations.
- In 2001 and 2002, CEE shareholder incentive revenue collected from PG&E's customers was included in PG&E's quarterly PPP revenue remittances to the BOE. In its 4th Quarter 2002 BOE PPP reimbursement claim form, PG&E made adjustments to its claimed Energy Efficiency expenditures to recover the \$304,000 it erroneously submitted to the BOE.

**Exhibit III-24: \$304,000 of CEE Shareholder Incentives were Included in PG&E's 4th Quarter 2002 BOE Claim for Reimbursement
(Dollars in Thousands)**

Year	CEE Shareholder Incentive	Energy Efficiency Expenditures	EE Expenditures in BOE Claim
2001	\$(271)	\$12,939	\$12,668
2002	575	11,639	12,214
Total	\$304	\$24,578	\$24,882

Source: Document Response EAL-17.4.

- Inclusion of the CEE shareholder incentive in PG&E's PPP surcharge rates had no impact on PG&E's gas balancing accounts.
- ⇒ CEE shareholder incentive revenue, collected through the PPP surcharge, was booked to its own balancing account and to the PPP memorandum account, which tracks revenues remitted to the BOE and reimbursed to PG&E from the Gas Consumption Surcharge Fund. When PG&E received reimbursement of the CEE shareholder incentive-related revenue that PG&E had remitted to the BOE, the reimbursement was booked to the PPP memorandum account to offset the billed revenue entry.

⇒ Consequently, PG&E's inclusion of the CEE shareholder incentive in PPP surcharge rates has had no impact on PG&E's shareholders or ratepayers.

- The CEE shareholder incentive was removed from the PG&E's PPP surcharge rates beginning in January 2003.

PPPC Revenues - Gas

C10. In contrast to SDG&E and SCG, PG&E treats the gas PPP surcharge as revenue, rather than as an excise tax.

- PG&E adheres to Regulation 2302 of the California Energy Resource Surcharge Regulations which considers the surcharge collections to be a debt owed to the state. The California Energy Resource Surcharge Regulations are issued by the BOE.
- PG&E treats the surcharge related revenues as a financial accounting liability until payments are made to the BOE rather than as a tax liability.
- The accounting treatment of the gas PPP surcharge, as well as other issues, is the subject of a current Commission proceeding. On October 3, 2002, the Commission initiated Rulemaking (R.) 02-10-001 to consider broad policy issues and adopt a long-term framework for implementing AB 1002. In a scoping memo issued April 22, 2003, the proceeding was segregated into two phases with Phase I focusing on administrative and implementation matters and Phase II on issues related to public interest research and development (RD&D).

C11. In accordance with Resolution G-3033, PG&E began to track the PPP revenues starting January 1, 2001, and showed the PPP rate as a separate line item on customers' bills by July 1, 2001.

- Prior to the passage of AB1002 effective January 1, 2001, PPP collections were embedded in the transportation rate and not separately tracked. PG&E began to track PPP revenues by customer class starting 2001 and submit these amounts to the BOE on a quarterly basis.
- In Resolution G-3033, the Commission established surcharge rates which were based on the costs of public purpose programs currently embedded in the rates of the three utilities. As shown **Exhibit III-20** above, PG&E modified its PPP rates effective January 1, 2001, but this change was to incorporate a cost of capital adjustment.
- Advice Letter 2317-G, effective July 1, 2002, included a new line item which separately identified the DSM component of the public purpose program surcharge. The CARE and CEE PPP components were shown as separate line items prior to July 1, 2001, and continued to be shown as separate line items in the July 1, 2002 filing.

C12. blueCONSULTING analysis indicates that during the period 1998 through 2002, PG&E billed an estimated \$8.8 million (3 percent) more than the authorized \$253.5 million gas PPP revenue requirements for this period.

- An estimate of gas PPP billed revenues compared to authorized revenue requirements is shown in **Exhibit III-25**. The amounts below do not include shareholder incentive revenues.

**Exhibit III-25: From 1998-2002, PG&E's Gas Public Purpose Program Billed Revenues Exceeded the Revenue Requirements by Nearly \$9 Million, or a 3% Overcollection
1998-2002
(Dollars in Thousands)**

	1998 [Note 1]	1999 [Note 1]	2000 [Note 1]	2001	2002	Total
PG&E PPP Billed Revenues						
CARE	\$10,405	\$12,812	\$10,517	\$12,244	\$28,798	\$74,776
Non-CARE	38,971	42,272	37,236	35,250	33,873	187,602
Total PPP Revenues	\$49,376	\$55,083	\$47,753	\$47,494	\$62,671	\$262,378
PPP Revenue Requirements						
CARE	\$9,180	\$11,640	\$9,831	\$13,397	\$32,864	\$76,912
Non-CARE	36,510	36,510	34,768	34,419	34,419	176,626
Total PPP Revenues	\$45,690	\$48,150	\$44,598	\$47,816	\$67,283	\$253,537
PG&E PPP Over-collection						
CARE	\$1,224	\$1,172	\$686	(\$1,153)	(\$4,066)	(\$2,136)
Non-CARE	2,461	5,762	2,468	831	(546)	10,977
Total PPP Revenues	\$3,686	\$6,933	\$3,155	(\$321)	(\$4,612)	\$8,840

Note 1: Estimated amounts. Prior to establishment of the gas surcharge costs were embedded in rates and not separately identified.

Source: Annual Revenue Requirements calculated based on data shown in Exhibit III-20 and Exhibit III-21. Billed Revenue data for 1998 through 2000 calculated by PG&E (Document Response PGE-EAL-17.1 and 26.1); Billed Revenue data for 2001 and 2002 based on Quarterly Reports to the BOE and blueCONSULTING analysis to exclude shareholder incentive revenues. (Interview PGE-JWC-001 and Document Response PGE-EAL-17.3).

- **Exhibit III-26** and **Exhibit III-27** list PG&E CARE and non-CARE PPP Revenues by customer class.
- ⇒ CARE billed revenue data for 1998 through 2001 was calculated by PG&E using rates contained in PG&E's preliminary statements and volume data from the revenue reports (GH sheets). These amounts do not include the shareholder incentive amounts.

- ⇒ Non-CARE billed revenue data for 1998 through 2001 was calculated by PG&E using rates developed for each customer class and volume data from the GH sheets. These amounts do not include the shareholder incentive amounts.
- ⇒ Billed revenue data for 2001 and 2002 was taken from PG&E's Quarterly Reports to the BOE. blueCONSULTING calculated and excluded the shareholder incentive portion of the revenues using rates for each customer class from PG&E's preliminary statements.

Exhibit III-26: Residential Customers Contributed 43% of PG&E's Gas PPP CARE Revenues in the Period 1998 to 2002 (Dollars in Thousands)

Customer Class	1998	1999	2000	2001	2002	Total	Percent
Residential	\$4,026	\$5,873	\$4,540	\$5,097	\$12,663	\$32,199	43%
Small Commercial	1,524	2,119	1,702	2,141	5,232	12,717	17%
Large Commercial	107	77	52	228	609	1,072	1%
Industrial Distribution	765	970	787	840	1,752	5,112	7%
Industrial Transmission	3,983	3,774	3,436	3,939	8,543	23,675	32%
Total CARE PPP Revenues	\$10,405	\$12,812	\$10,517	\$12,244	\$28,798	\$74,776	100%

Source: Billed Revenue data for 1998 through 2000 calculated by PG&E (Document Response PGE-EAL- 26.1); Billed Revenue data for 2001 and 2002 based on Quarterly Reports to the BOE (Interview PGE-JWC-001).

Exhibit III-27: Residential Customers Contributed 65% of PG&E's Gas PPP Non-CARE Revenues in the Period 1998 to 2002 (Dollars in Thousands)

Customer Class	1998	1999	2000	2001	2002	Total	Percent
Residential	\$25,425	\$28,299	\$24,819	\$22,916	21,265	122,724	65%
Small Commercial	8,858	9,752	8,342	8,145	6,593	41,691	22%
Large Commercial	528	631	501	1,367	3,330	6,357	3%
Industrial Distribution	926	1,049	963	753	653	4,344	2%
Industrial Transmission	3,234	2,541	2,611	2,069	2,032	12,486	7%
Total Non-CARE PPP Revenues	38,971	42,272	37,236	35,250	33,873	187,602	100%

Source: Billed Revenue data for 1998 through 2000 calculated by PG&E (Document Response PGE-26.1); Billed Revenue data for 2001 and 2002 from Quarterly Reports to the BOE (Documents provided in Interview PGE-JWC-001).

- The over/undercollections were tracked in the Core Fixed Cost Account (CFCA), Non-Core Customer Class Charge Account (NCA) and California Alternate Rates for Energy Account (CARE) balancing accounts. The balances in these accounts were incorporated into rates in the Cost Allocation Proceeding or Annual True-up of Balancing Accounts.

C13. PG&E's payments to the BOE were calculated in accordance with Commission-approved PPP rates. However, as a result of changes in surcharge rates billed to customers, \$2.6 million more revenue was billed to PG&E customers than what was sent to the BOE.

- blueCONSULTING's review verified that payments to the BOE were calculated using the approved BOE remittance rates specified in Resolutions G-3303 and G-3329. PG&E's approved rates for BOE remittance are listed below.

Exhibit III-28: Resolutions G-3303 and G-3329 set Forth the Commission-Approved Rates to be Used for PG&E's BOE Payments from 2001-2002 (cents/therm)

	2001		2002	
	CARE	Non-CARE	CARE	Non-CARE
Residential	1.13	1.34	1.05	1.74
Small Commercial/Industrial		1.25		1.56
Large Commercial/Industrial		2.21		4.42
Non-Core Industrial Distribution		0.47		0.94
Non-Core Industrial Transmission		0.37		0.85

Source: Resolutions G-3303 and G-3329.

- These BOE remittance rates specified in Resolution G-3033 differed from billing rates in 2001. Billing rates and BOE remittance rates were the same at the beginning of each year; however, billing rates can change mid-year as a result of changes in revenue requirements, whereas rates charged to the BOE do not change during the year. Resolution G-3303 states that the surcharge rates used to remit payments to the BOE were the costs of public purpose programs that were currently embedded in rates. Therefore, during 2001 the surcharge was based on 2000 rates. In 2001, the Commission adopted Resolution G-3329 which required the Company to change the rates to be consistent with the 2000 BCAP rates that were adopted in Decision 01-11-001 that went into effect on January 1, 2002.
- A comparison of actual 2001 and 2002 billed PPP revenues and BOE payments indicates that \$3.5 million more revenue was sent to the BOE than what was billed to PG&E's customers, as shown below. The amount billed to PG&E customers includes shareholder incentive revenue requirements.

**Exhibit III-29: PG&E's Actual PPP Gas Revenues Were \$2.6 Million More than PG&E's Payments to the BOE in 2001 and 2002
(Dollars in Thousands)**

Quarter Ending	Actual Revenues	Remitted Revenues	Difference	Comments
Mar-01	\$17,370	\$17,374	(\$4)	Payment made in April 2002 due to bankruptcy
Jun-01	8,188	8,804	(616)	Pre-bankruptcy amount of \$678,484 paid in April 2002.
Sep-01	8,778	7,279	1,499	
Dec-01	12,295	10,530	1,765	
Mar-02	23,126	23,126	0	
Jun-02	14,260	14,260	0	
Sep-02	11,918	11,918	0	
Dec-02	13,937	13,937	0	
Total	\$109,872	\$107,227	\$2,644	

Source: PG&E BOE Payment Filings (Received in Interview PGE-JWC-001). PGE Reimbursements from the BOE (Document Response PGE-JWC-5)

- BOE payments for the period January 1, 2001 through April 5, 2001 were deemed part of the bankruptcy estate and were not remitted until April 2002, following bankruptcy court approval. These payments did not include the 12 percent annual interest for delayed payment, as specified by the BOE Forms. This amounts to approximately \$2,000.
- PG&E currently tracks BOE payments and reimbursements in a PPP surcharge account. This is an SAP account, not a regulatory memorandum account.
- PG&E filed Advice Letter 2440-G for a gas memorandum account to track PPP revenues remitted and reimbursements from the California State Board of Equalization. Approval of this Advice Letter had not been received as of December 31, 2003.

C14. The remitted revenues PG&E sent to the BOE in years 2001 and 2002 exceed PG&E's claimed amounts for 2001 and 2002 gas CARE, LIEE, and Energy Efficiency expenses by \$13 million.

- A schedule of PG&E payments to and collections from the BOE for 2001 and 2002 is shown below.

**Exhibit III-30: PG&E Payments to the BOE are \$13 million Greater than the Amount Claimed from the BOE in 2001 and 2002
(Dollars in Thousands)**

Quarter Ended	Remitted Revenues	Amounts Claimed by PG&E for 2001 and 2002 Expenses
Mar -01	\$17,374	
Jun-01	8,804	
Sep-01	7,279	
Dec-01	10,530	
Mar-02	23,126	
Jun-02	14,260	25,157
Sep-02	11,918	40,887
Dec-02	13,937	15,003
Additional 2002 Expenses Claimed in 1st quarter of 2003		13,174
Total	\$107,227	\$94,221
Difference between Remitted and Claimed Amounts	\$13,006	

Source: PG&E BOE Payment Filings (Received in Interview PGE-JWC-001), PG&E BOE Claims (Document Response PGE-EAL-32).

- PG&E did not submit a claim for BOE reimbursement in 2001 as there were no Commission procedural guidelines regarding reimbursement until January 2002. PG&E submitted its first Gas Consumption Surcharge claim form in the amount of \$25.2 million in March 2002. The Commission requested a revised form, which PG&E submitted in April 2002. PG&E subsequently received payment from the State Controller's Office in May 2002 (quarter ended June 2002).

Regulatory Accounts - Gas

C15. PG&E's gas balancing accounts properly reflect the PPP revenues.

- PG&E gas PPP revenues are tracked in three separate balancing accounts:

Exhibit III-31: PG&E Gas PPP Revenues are Tracked in Three Balancing Accounts

Balancing Account		PPP Revenue Component Addressed
CFCA	Core Fixed Cost Account	Revenues from Core Customers for energy efficiency (EE), low income energy efficiency (LIEE) and RD&D.
NCA	Non-Core Customer Class Charge Account	Revenues from Non-Core Customers for energy efficiency (EE), low income energy efficiency (LIEE) and RD&D.
CAREA	California Alternate Rates for Energy Account	Revenues for the forecasted CARE subsidy, administrative costs, and CARE balancing account balance.

- A review of the monthly balancing account calculation sheets verified that the billed and unbilled PPP revenues, and PPP revenue requirements were properly reported.
- The erroneous inclusion of shareholder incentives in the development of PPP rates has no impact on the balancing accounts as these amounts were not included in the revenue requirements or revenues recorded in the balancing accounts.

2. Recommendations for the Company:

- R1. PG&E should make a one time adjustment to the PPP revenue requirements in the TRA to adjust for the \$210,759 CARE administrative costs requirements which were inadvertently excluded in 2001. (Refers to Conclusion No. C4)**

3. Policy Issues for the Commission:

- R2. The Commission should determine whether the gas PPPC should be treated as revenues or as a tax, and require consistent accounting treatment by the utilities. Treatment of the surcharge as a tax may have unintended consequences with respect to the number of customers exempt from the surcharge. (Refers to Conclusion No. C10)**

D. SCE

1. Conclusions

Revenue Requirements and Rate Design - Electric

C16. SCE's initial electric PPP rates were developed in accordance with the Commission's requirements, properly computed, and reflected in the utility's tariff.

- SCE's PPC rates, effective January 1, 1998, were developed using the Commission-approved PPC revenue requirements.

⇒ In D. 97-02-014, the Commission adopted the following minimum annual funding levels for SCE's PPP programs for the period 1998-2001. These funding levels were originally established in AB 1890:

**Exhibit III-32: AB 1890 Established Minimum Annual SCE Electric Funding Levels:
\$168 million 1998-2000, \$155 million in 2001
(Dollars in Millions)**

Program	Annual Funding Requirement 1998-2000	Funding Requirement 2001
Cost-effective energy efficiency and conservation	\$90.0	\$50.0
RD&D	28.5	28.5
Renewable technologies	49.5	76.5
Subtotal	\$168.0	\$155.0
LIEE	Not less than 1996 authorized levels based on an assessment of customer need.	Not less than 1996 authorized levels based on an assessment of customer need.
CARE	Not less than 1996 authorized levels based on an assessment of customer need.	Not less than 1996 authorized levels based on an assessment of customer need.

Source: AB 1890, D.97-02-014.

⇒ On June 5, 1997, SCE filed its 1996 authorized funding level for CARE and low-income assistance programs of \$47.8 million, as required by Ordering Paragraph (OP) 7 of D. 97-02-014. The \$47.8 million included \$757,000 of CARE administration costs and \$39.7 million in CARE subsidies. The remaining \$7.3 million was funding for Direct Assistance.

⇒ As required by D. 97-02-014, SCE filed its unbundled revenue requirements. In addition to the \$168 million required funding level established by AB 1890, SCE included \$8.1 million in LIEE costs, and \$1.9 million in FF&U for a total, non-CARE PPC revenue requirement of \$178.0 million. In D. 97-08-056, the Commission

adjusted this amount to include the costs associated with a number of other balancing account balances. Ultimately, a total PPPC revenue requirement of \$185.4 million, excluding those associated with the CARE surcharge, was approved by the Commission. Details of SCE's initial approved PPPC revenue requirement are provided in **Exhibit III-33**.

**Exhibit III-33: SCE's Approved 1998 PPPC Revenue Requirement Was \$185.4 Million Excluding CARE
(Dollars in Thousands)**

Public Purpose Program	Effective 01/01/98 D.97-08-056	Regulatory Authority/Filing
DSM	\$90,000	AB 1890
RD&D	28,500	AB 1890
Renewables	49,500	AB 1890
Subtotal	\$168,000	
DSM Incentive	5,203	Advice 1245-E-B, Advice 1265-E
Authorized R&D Expenses	1,131	Advice 1245-E-B, D. 97-11-022, D. 96-01-011, Advice 1303-E
R&D Royalties Memorandum Account	(3,453)	Advice 1245-E-B, D. 91-12-076, Resolution E-3484
LIEE	7,343	AB 1890
CARE Administration Cost	757	AB 1890
Electric Vehicle Balancing Account (D&M)	3,800	Advice 1245-E-B, D. 95-11-035
Women, Minorities & Disabled Veterans	613	Advice 1245-E-B
FF&U	1,991	Advice 1245-E-B
Total PPPC Revenue Requirements	\$185,385	
CARE Revenue Requirements (1995 GRC)	\$55,124	1995 GRC, AB 1890
CARE Rate (cents/kWh)	0.07936	

Source: SCE Orientation Presentation, AB 1890, D. 97-08-056, Data Response 70.

⇒ In compliance with D. 97-08-056 and Resolution E-3510, SCE filed Advice Letter 1692-E-D which included unbundled PPP rates for each rate schedule. These rates were based on the \$185.4 million non-CARE revenue requirement approved by the Commission.

⇒ The CARE surcharge rate of 0.07936 cents/kWh included in PPPC rates was developed in the 1995 GRC, based on a total CARE revenue requirement of \$55.1 million authorized by the Commission in D. 96-04-050. The CARE rates were subsequently frozen pursuant to AB 1890 and ultimately used in the development of the PPPC rates filed in Advice Letter 1245-E. This was added to the PPP rates developed based on the \$185.4 million revenue requirement.

- The PPP rates included in Advice Letter 1245-E, effective January 1, 1998, were properly computed for each customer class in accordance with the Commission approved methodology.

- ⇒ The CARE program costs were allocated on an equal cents per kilowatt-hour (kWh) basis using the rates in effect in 1996.
- ⇒ The remaining PPP costs were allocated according to the percent share of the schedule's present revenue requirements relative to the total present revenue requirements using the SAPC method. The unbundled PPP rates effective January 1, 1998 in Advice Letter 1245-E were calculated using the 1998 sales projections to estimate the total projected revenues by customer rate category. Those rate category revenues were then used to develop percentages for allocating the total PPP revenue requirements to customer rate categories for subsequent rate calculations.
- ⇒ A review of the specific customer rate calculations as specified in D. 97-08-056 verified that the rates for each customer class were calculated correctly based on the allocation factors and forecasted sales for each customer class. **Exhibit III-34** provides details of SCE's calculation.

Exhibit III-34: SCE's Initial Electric PPC Rate Was Developed in Accordance with Commission Requirements

Rate Schedule By Customer Group	Sales Projections GWh	Total Projected Revenue (\$000)	Allocated PPC Revenue Requirement (\$000)	PPPC Rates ¢/kWh	CARE Surcharge ¢/kWh	PPPC w/CARE Surcharge ¢/kWh
Effective 1/1/98 Advice Letter 1245-E, D.97-08-056						
Domestic	22,766	\$2,888,884	\$71,393	0.314	0.079	0.393
Lighting-SM Med Power	25,972	2,746,899	67,885	0.261	0.079	0.340
Large Power	21,959	1,509,795	37,312	0.170	0.079	0.249
Agricultural & Pumping	2,615	245,025	6,055	0.232	0.079	0.311
Street & Area Lighting	453	68,902	1,703	0.376		0.376
Special Contracts	844	41,972	1,037	0.123	0.079	0.202
Grand Total	74,609	\$7,501,477	\$185,385	0.248	0.079	0.327

Source: SCE Data Response 10.

C17. The January 1, 1998 PPP rates were revised on August 2, 1999 and again on March 16, 2001. The 1999 and 2001 PPP filings and rate calculations were made in accordance with the Commission's requirements.

- The 1999 PPP rate changes reflected in Advice Letter 1387-E were in compliance with D. 99-06-058 and resulted from the 1998 RAP. The calculated rates were based on SCE's projected 1999 sales forecast.
- The 2001 PPP rate changes reflected in Advice Letter 1513-E-A were in compliance with D. 01-01-019 and resulted from the 1999 RAP. The calculated rates were based on SCE's projected 2001 sales forecast.
- The CARE surcharge rate of 0.079 cents per kWh did not change.

- **Exhibit III-35** provides the revised revenue requirements.

**Exhibit III-35: SCE Revised its Electric PPC Revenue Requirements in 1999 and 2001
(Dollars in Thousands)**

Public Purpose Program	Effective 08/02/99	Effective 03/16/01
	D. 99-06-058	D. 01-01-019
DSM	\$90,000	\$50,000
RD&D	28,500	28,500
Renewables	49,500	76,500
DSM Incentive	0	0
Authorized R&D Expenses	1,214	1,214
1997 Unspent Balance	(6,426)	0
R&D Royalties Memorandum Account	(753)	1,706
LIEE	7,360	7,360
CARE Administration Cost	958	1,264
CARE Adjustment Account	308	0
Electric Vehicle Balancing Account	7,674	9,427
Electric Vehicle Memorandum Account	0	758
Investor Compensation Cost	630	349
Women, Minorities & Disabled Vets.	0	0
FF&U	2,030	2,009
Total PPC Revenue Requirements	\$180,995	\$179,087

Source: Advice Letters 1245-E, 1387-E and 1513-E, Resolution E-3792 and Document Response 72.

- **Exhibit III-36** details SCE's revised PPP rate development calculations.

Exhibit III-36: Revised SCE PPC Rates Resulting from 1999 and 2001 Revised Revenue Requirements: Calculated In Accordance with Commission Requirements

1999

Rate Schedule By Customer Group	Sales Projections GWh	Total Projected Revenue (\$000)	Allocated PPPC Revenue Requirement (\$000)	PPPC Rates ¢/kWh	CARE Surcharge ¢/kWh	PPPC w/CARE Surcharge ¢/kWh
Effective 8/2/99 Advice Letter 1387-E, D.99-06-058						
Domestic	23,414	\$2,973,467	\$69,987	0.298	0.079	0.377
Lighting-SM Med Power	27,089	2,866,080	67,170	0.248	0.079	0.327
Large Power	23,547	1,566,813	36,721	0.156	0.079	0.235
Agricultural & Pumping	2,808	249,420	5,845	0.208	0.079	0.287
Street & Area Lighting	441	67,034	1,571	0.356		0.356
Grand Total	77,300	\$7,722,815	\$180,995	0.234	0.079	0.313

2001

Effective 3/16/01 Advice Letter 1513-E, D.01-01-019						
Domestic	24,918	\$3,170,549	\$67,229	0.270	0.079	0.349
Lighting-SM Med Power	30,372	3,191,016	67,663	0.223	0.079	0.302
Large Power	24,845	1,724,201	36,560	0.147	0.079	0.226
Agricultural & Pumping	3,116	281,217	5,963	0.191	0.079	0.270
Street & Area Lighting	529	78,862	1,672	0.316		0.316
Grand Total	83,780	\$8,445,845	\$179,087	0.214	0.079	0.293

Source: SCE Data Response 72.

C18. There were two revisions to SCE's revenue requirements that occurred during the 1998 to 2002 period which did not result in revised PPPC rates.

- Resolution E-3792 (P.U. Code § 399.8) December 17, 2002, which was retroactive to January 1, 2002, changed the amount to be remitted to the CEC for RD&D and Renewables. The SCE reimbursement amount for RD&D was reduced from \$28.5 million to \$25.6 million and Renewables decreased from \$76.5 million to \$55.3. At the same time the energy efficiency revenue requirement increased from \$50.0 million to \$90.0 million, as required by AB 1890. The net change was an increase of \$15.9 million over the 2001 revenue requirement. Although Resolution E-3792 increased SCE's PPP revenue requirements, SCE did not revise its PPP rates as the PU Code states rates may not exceed those in effect January 1, 2000.
- SCE did not revise PPPC rates to reflect the three cent/kWh surcharge adopted in D.01-03-082. The three cent surcharge was not applied uniformly across each customer class and therefore the PPP revenue allocation percentages did not reflect the change.

PPPC Revenues - Electric

C19. Prior to 2000, SCE's revenue reporting system (CRRIS) was not able to report unbundled revenues by customer class. Total unbundled revenues were tracked, but the unbundled components by customer class were not.

- Exhibit III-37** (following) provides estimated billed PPPC revenues by customer class.

Exhibit III-37: SCE Estimated its PPPC Revenues by Customer Class in the Years 1998 and 1999, and Tracked These Amounts in the Period 2000 to 2002
(Dollars in Thousands)

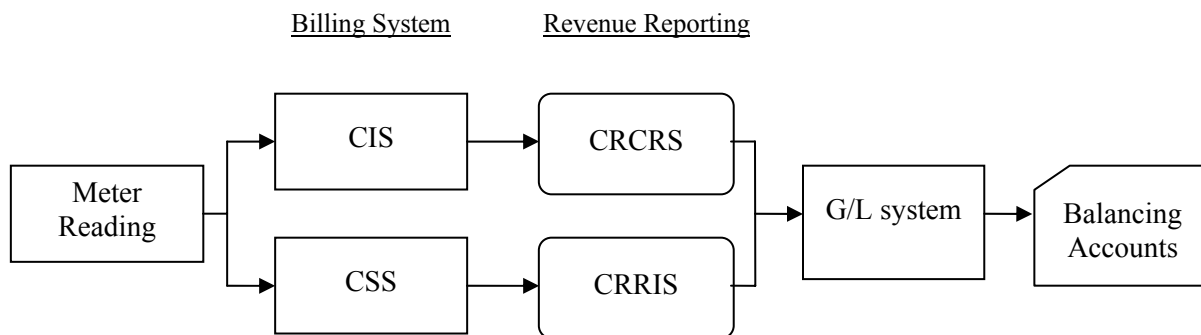
Customer Class	1998 [Note 1]	1999 [Note 1]	2000	2001	2002
Residential	\$70,376	\$78,243	\$97,776	\$85,430	\$84,394
Agricultural	2,559	2,845	3,291	3,082	3,356
Commercial	81,087	90,151	109,151	99,175	100,004
Industrial	20,996	23,343	29,595	26,084	24,158
Street Lighting	1,253	1,393	1,668	1,581	1,516
Public Auth-S/C	349	388	396	450	480
Public Auth – Other	11,403	12,678	15,797	13,866	13,696
Railroads & Railways	100	111	100	127	154
Interdepartmental	1	1	2	2	1
Total	\$188,124	\$209,153	\$257,776	\$229,796	\$227,759

Note 1: Estimated values.

Source: SCE Document Responses 12 and 40.

- An overview of SCE's revenue cycle is provided in **Exhibit III-38**. Data from the meter readings are uploaded into the billing system, Customer Information System (CIS)/ Customer Service System (CSS), on a daily basis. At the end of the month, SCE downloads information from CIS/CSS to the revenue reporting system, Customer Revenue and Consumption Reporting System (CRCRS)/Corporate Reporting System (CRRIS). The billed revenue from the billing system is reported in the general ledger.

Exhibit III-38: Data for SCE's Revenue Reporting Flows from Meter Readings to the General Ledger and Balancing Accounts



⇒ During the audit period, SCE's billing was performed by two separate systems: CIS, which operated until 1999; and CSS, which operated from 1999 to the present. Customer migration from CIS to the new CSS began in early 1997, and all customers were migrated to CSS by the end of 1999. During this time, several system defect corrections and enhancements were implemented to help stabilize the automated billing process in CSS.

- ⇒ SCE's current revenue reporting system, CRRIS, went into production in the first quarter of 2000. The CRRIS system replaced CRCRS, which was over 20 years old. With the advent of the utility industry restructuring and implementation of a new SCE Customer Service System (CSS), SCE determined that the CRCRS system design was not able to support these major initiatives. Thus, commencing in 1997, SCE began replacing CRCRS with CRRIS.
- ⇒ CRRIS was implemented in three phases, with the initial phase focusing on fulfilling the new reporting requirements to support industry restructuring. The main restructuring requirement was to report revenue at the unbundled level, which CRCRS was unable to support. The first phase of CRRIS supported this requirement while CRCRS remained in existence to report revenue at a higher level. Over the next two years of implementation, CRRIS assumed all the remaining CRCRS reporting functions.

C20. During the period 1998 through 2002, SCE's billed non-CARE PPC revenues totaled \$1.1 billion dollars, an estimated \$29.7 million less than the non-CARE PPC revenue requirement. Undercollections result from differences between actual kWh sales and forecast sales used in the PPC rate design.

- **Exhibit III-39** provides details of SCE's billed non-CARE PPC revenues.

**Exhibit III-39: SCE's Billed Non-CARE Electric PPC Revenues Were \$30 Million Less Than its Revenue Requirement
(Dollars in Thousands)**

	Billed PPC Revenues	Less Billed CARE Revenue	Non-CARE Billed Revenues	Non-CARE Revenue Requirement [Note 1]	Total Over/(Under) Collection
1998	\$188,124	\$697	\$187,427	\$185,385	\$2,042
1999	209,153	8,939	200,214	185,385	14,829
2000	257,776	61,268	196,508	180,995	15,513
2001	229,796	58,153	171,643	179,087	(7,444)
2002	227,759	58,582	169,177	223,801	(54,624)
Total	\$1,112,608	\$187,639	\$924,969	\$954,653	(\$29,684)

Note 1: Revenue requirements for 1999 and 2001 are approximate, as they were revised mid-year. The 1998 PPC revenue requirement was \$185.4 million. The revenue requirement was reduced to \$181.0 million as of August 2, 1999, and \$179.1 million on March 16, 2001.

Source: blueCONSULTING Analysis, Data Response 12; SCE April 31, 2004 Verification Response.

- **Exhibit III-40** provides an estimated allocation of billed revenues by program category, based on proportional revenue requirements included in rates.

**Exhibit III-40: Energy Efficiency is the Largest Component of the
Estimated SCE Electric PPP Revenues in the Period 1998 to 2002
(Dollars in Thousands)**

	Energy Efficiency	RD&D	Renewables	Other	Total Billed Revenues
1998	\$91,330	\$28,921	\$50,231	\$17,642	\$188,124
1999	101,539	32,154	55,846	19,614	209,153
2000	128,179	40,590	70,499	18,508	257,776
2001	64,158	36,570	98,161	30,907	229,796
2002	63,589	36,246	97,291	30,633	227,759
Total	\$448,795	\$174,481	\$372,029	\$117,304	\$1,112,608

Source: blueCONSULTING Analysis, Data Responses 12, 70 and 72; SCE Orientation Presentation.

Regulatory Accounts - Electric

C21. SCE properly recorded the approved PPPC revenue requirements in its balancing accounts. As a result of SCE's balancing account design, PPPC overcollections are used to offset transition costs or procurement costs. PPPC costs are tracked in the Energy Efficiency Program Adjustment Mechanism (EEPAM), which compares PPPC costs to revenue requirements. The revenue balancing accounts include revenue requirements, not billed PPPC revenues. No balancing accounts compare actual revenues to costs. SCE's accounting procedures were approved by the Commission with the approval of SCE's TRA Preliminary Statement Advice Filing.

- As directed by the Commission, SCE reported its billed revenue in its revenue balancing accounts: the Transition Revenue Account (TRA) which was established January 1, 1998, and the Settlement Rates Balancing Account (SRBA), established September 2001.
- The purpose of the TRA and SRBA is to match the amount of billed revenues against the amount of the separated revenue requirement and Commission approved obligations. In accordance with its Commission approved tariffs, SCE records the monthly PPPC revenue requirement in the balancing accounts, not the actual billed PPPC revenues. Billed PPPC revenues are captured as an element of total billed revenues which are credited to the balancing accounts.
- TRA credit balances are transferred to the Transition Cost Balancing Account to offset transition costs. Debit balances are carried forward to the following month. SRBA surplus is transferred to SCE's Procurement Related Obligations Account (PROACT) to recover wholesale electricity procurement costs. **Exhibit III-41** illustrates the operation of SCE's revenue balancing accounts.

Exhibit III-41: SCE's TRA and SRBA Electric Revenue Balancing Accounts Treat the Surplus Balance Differently

Entry	<u>TRA (1/1/98-9/1/01)</u>	<u>SRBA (91/01-12/31/02)</u>
Credit	Recorded Retail Revenue (includes PPPC revenues)	Recorded Retail Revenue (includes PPPC revenues)
Debit	PPPC Revenue Requirement	PPPC Revenue Requirement from Public Purpose Program Adjustment Mechanism (PPPAM)
Surplus	Credit balance transferred to: TCBA for recovery of transition costs	Credit balance transferred to: PROACT for recovery of procurement costs

Source: SCE Document Response 7.

2. Recommendations for the Company:

None.

3. Policy Issues for the Commission:

None.

E. SDG&E

1. Conclusions

Revenue Requirements and Rate Design - Electric

C22. With the exception of the application of the SAPC methodology, the initial PPPC electric rates established effective January 1, 1998 were developed in accordance with Commission requirements, were properly computed and are properly described in the Company's tariffs.

- In D. 97-02-014, the Commission adopted the following minimum annual funding levels for SDG&E's PPP programs for the period 1998-2001. These funding levels were originally established in AB 1890:

**Exhibit III-42: AB 1890 Established Minimum Annual SDG&E Electric PPP Funding Levels of \$48 Million for the Period 1998 to 2002
(Dollars in Millions)**

Program	Annual Funding Requirement
Cost-effective energy efficiency and conservation	\$32.0
RD&D	4.0
Renewable technologies	12.0
Subtotal	\$48.0
Low-income energy efficiency	Not less than 1996 authorized levels based on an assessment of customer need.
California Alternative Rates for Energy (CARE)	Not less than 1996 authorized levels based on an assessment of customer need.

Source: D.97-02-014.

- In accordance with D. 97-02-014, the following PPP revenue requirement funding was established, and approved by the Commission in D. 97-08-056:

**Exhibit III-43: The Commission Authorized a 1998 Electric Revenue Requirement of \$56.5 Million for SDG&E
(Dollars in Thousands)**

Program	Authorized Revenue Requirement
DSM	\$32,000
RD&D	4,000
Renewables	12,000
Subtotal	\$48,000
CARE	8,465
Total Authorized	\$56,465

Source: Data Response SDG&E-JDH-001-01.

- Advice Letter 1042-E-C established the following PPP rates that were effective January 1, 1998:

**Exhibit III-44: Advice Letter 1042-E-C Established SDG&E's Electric PPP Rates
Effective January 1, 1998**

	Adopted ECAC Sales (GWh)	GWh Sales Percent	6/10/96 Adopted Revenue (\$000)	Sales Revenue as a % of Total	PPP Revenue Requirement excluding CARE (\$000)	CARE Revenue Req. (\$000)	Total PPP Revenue Req. (\$000)	PPP Rates (¢/kWh)
	a	b=a/tot a	c	d=c/tot.c	e=d*tot.e	f=b*tot.f	g=e+f	h=g/a
Residential	5,855	36.73%	\$635,686	41.35%	\$19,847	\$3,109	\$22,955	3.92
Commercial:								
Schedule A	1,919	12.04%	219,881	14.30%	6,865	1,019	7,884	4.11
Schedule AD	580	3.64%	67,618	4.40%	2,111	309	2,419	4.17
Schedule AL	6,699	42.02%	548,221	35.66%	17,116	3,557	20,673	3.09
Schedule A6	665	4.17%	41,726	2.71%	1,303	353	1,656	2.49
Agriculture	145	0.91%	15,802	1.03%	493	77	570	3.94
Lighting	80	0.50%	8,507	0.55%	266	42	\$308	3.86
System Total	15,942	100.00%	\$1,537,441	100.00%	\$48,000	\$8,465	\$56,465	3.54

⇒ The work papers associated with Advice Letter 1042-E-C and D. 97-08-056 show that PPP rates effective January 1, 1998 were developed using the appropriate \$56.5 million revenue requirement specified in Resolution E-3510, and previously adopted sales projections.

⇒ A review of the Work Papers associated with the Unbundled Revenue Requirements adopted by Advice Letter AL 1042-E-C indicates that the revenue requirements summarized in Column (g) of Exhibit 6 were used for the PPP rate calculations. The adopted ECAC sales projections were used to calculate all of the unbundled rates.

- SDG&E does not use the SAPC method for PPP revenue allocation. CARE revenues are allocated first to all non-CARE customers on an equal cents per kWh basis; non-CARE revenue requirements are allocated to customer classes on an equal percentage marginal cost basis (EPMC).

C23. At the time of the lifting of the rate freeze in 1999, SDG&E properly implemented a PPP rate change in accordance with the Commission's requirements. The PPP rate was not changed until 2004 to account for an increase in the RD&D revenue requirement specified in P.U. Code § 399.8 adopted December 17, 2002.

- SDG&E revised its PPP rates effective July 1, 1999 by Advice Letter 1174-E-A in the Consolidation of Cost and Revenue Allocation Impact proceeding. Although the PPP authorized revenue requirement did not change, a new rate was established based on the sales forecast adopted in the 1999 Cost of Service Settlement.

- The Revenue Allocation Model supporting the rate design process allocated the PPP authorized revenue requirement as shown in **Exhibit III-45**.

**Exhibit III-45: SDG&E Electric PPP Revenue Requirement were Revised in
Allocation Advice Letter 1174-E Effective July 1, 1999
(Dollars in Thousands)**

Customer Class	PPP Revenue Allocation
Residential	\$22,188
Commercial	
Schedule A	7,629
Schedule AD	24,204
Schedule AL	1,624
Schedule A6	33,458
Agriculture	494
Lighting	325
System Total	\$56,465

Source: Advice Letter 1174-E Work Papers.

- Although SDG&E implemented a three percent electric distribution rate increase effective January 1, 2002, there was no change in the previously established PPP rate because PPP revenue requirements did not change.
- In December 2002, the Commission adopted Resolution E-3792 to implement P.U. Code §399.8, retroactive to January 1, 2002. This resolution changed the amount to be remitted to the California Energy Commission for funding of RD&D. The RD&D amount for SDG&E was increased from \$4.0 million to \$5.5 million annually. Although the Company was allowed to charge the additional cost to the balancing account, it did not change the balancing account allocation percentages in 2002 to reflect the increased RD&D revenue requirement, believing that it was not required to do so.
- In accordance with the RAP decision adopted in April 2003 (D. 03-04-027), effective January 1, 2004, SDG&E implemented a new PPP rate and changed the allocation of revenue to the balancing accounts to reflect the increased RD&D revenue requirement. Also at that time, balancing account balances were rolled into the new rate, in effect adjusting allocations retroactively to account for the new RD&D revenue requirement.

Regulatory Accounts - Electric

C24. PPP revenues are properly recorded in the balancing accounts using the PPP rate applied to actual billed volumetric sales, and the percentage allocation to programs established in 1998.

- As shown in **Exhibit III-46**, over the five-year audit period 1998-2002, the amount of PPP revenues collected from customers exceeded the Commission approved PPP revenue requirements by \$12.3 million, of which \$7.8 million has been assigned to the Energy Efficiency DSM balancing account.

Exhibit III-46: In the Period 1998 to 2002, Public Purpose Program Revenues Collected from Customers Exceeded the Commission Approved Revenue Requirements by \$12.3 Million (Dollars in Thousands)

	Authorized Revenue Requirement	Allocation of Billed Revenue	Revenue in Excess of Revenue Requirement
DSM	\$160,000	\$166,964	\$6,964
CARE	42,325	44,165	1,840
RD&D	21,500	22,394	894
Renewables	60,000	62,608	2,608
Total PPP	\$283,825	\$296,131	\$12,306

Note 1: PPP Billed Revenue excludes DAP/LIEE shown in Exhibit III-48.

Source: Resolution E-3792, December 17, 2002; Data Response SDG&E-JDH-001-02-(Q2), IDR-012 and 2002 Allocation based on R-E-3792.

- As shown in **Exhibit III-47 and Exhibit III-48**, the percentages used to allocate billed PPP revenue to the balancing accounts have remained constant during the five-year period. As shown in **Exhibit III-48**, because PPP electric rates are unchanged, revenue collections have grown as kWh sales have increased during the period.

Exhibit III-47: Percentages Used to Allocate SDG&E's Billed PPP Revenue to the Balancing Accounts Did Not Change 1998-2002 (Dollars in Thousands)

	Revenue Requirement	Percent of Total
DSM	\$32,000	56.67%
CARE	8,465	14.99%
RD&D**	4,000	7.09%
Renewables	12,000	21.25%
Total	\$56,465	100.00%

**Exhibit III-48: SDG&E Billed PPP Electric Revenue Varied By Year
(Dollars in Thousands)**

		1998	1999	2000	2001	2002	Total
Billed Revenue							
Unbundled PPP Revenue Billed		\$60,322	\$60,611	\$60,037	\$56,839	\$58,324	\$296,131
DAP/EELI [Note 1]		798	846	869	893	895	4,301
Total Billed Revenue		\$61,120	\$61,457	\$60,905	\$57,731	\$59,219	\$300,432
Allocated Revenue		-	-	-	-	-	-
DSM	56.67%	\$34,185	\$34,348	\$34,023	\$32,210	\$33,052	\$167,818
CARE	14.99%	9,042	9,086	8,999	8,520	8,743	44,390
RD&D	7.09%	4,276	4,297	4,257	4,030	4,135	20,995
Renewables	21.25%	12,819	12,880	12,758	12,078	12,394	62,928
Total PPP Allocation		\$60,322	\$60,611	\$60,037	\$56,839	\$58,324	\$296,131
DAP/EELI [Note 1]							
DAP/EELI [Note 1]			\$846	\$869	\$893	\$895	\$3,502
DAP/EELI Adjustments			751	(70)	(94)	212	798
Total DAP/EELI		-	\$1,597	\$798	\$798	\$1,107	\$4,301
Total Allocated Revenue							
Total Allocated Revenue		\$60,322	\$62,207	\$60,835	\$57,637	\$59,431	\$300,432

Note1 : The Direct Assistance and Energy Education for Low Income Programs (DAP/EELI) shown in the table above are state-wide programs funded from sources other than PPP revenues, and were not part of the original PPP rate setting as part of the unbundling process.

Source: SDG&E-JDH-001-02.

C25. blueCONSULTING's review of revenue entries to the SDG&E PPP balancing accounts during the 1998-2002 audit period disclosed no significant matters requiring further investigation.

- During the period from 1998 through 2001, SDG&E properly applied the percentage allocation factors in the apportionment of total billed PPP electric revenue between DSM, CARE, RD&D and renewables in the balancing accounts.
- Even though RD&D funding was increased by Resolution E-3792 in December 2002, the Company continued to use the 1998 allocation factors to apportion PPP revenues to the balancing accounts awaiting a decision in the RAP proceeding initiated in November 2002 (A. 02-11-031).
- In 2002, the Company continued to use the 1998 allocation factors to apportion PPP revenues to the balancing accounts even though funding for RD&D was increased by Resolution E-3792, which should have resulted in new percentage weightings.
- Interest is accrued in the balancing accounts by applying an interest rate to the average of the beginning and ending balances.

- ⇒ The interest rate used is equal to 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3 months), published in the Federal Reserve Statistical Release, H.15.
- ⇒ SDG&E uses five PPP related Electric balancing accounts. SDG&E filed its preliminary statement Transition Revenue Account (TRA) on November 3, 1997. In the post-1997 period, the resolution adopting the TRA for the other electric utilities was not approved for use by SDG&E.

PPPC Revenues - Electric

C26. SDG&E billed customers approximately \$12.3 million more than the \$283.8 million electric PPP revenue requirements in the 1998-2002 period.

- Although SDG&E has no specific requirement to report PPP electric revenue by customer rate class, the revenue tracking process within the customer information system contains such information.
- SDG&E maintains records of its billed PPP electric revenue by 39 separate customer rate schedules. **Exhibit III-49** provides a summary of SDG&E's total PPP billed electric revenues combined into seven customer classification categories.

Exhibit III-49: SDG&E's Billed Electric PPP Revenues by Customer Class 1998-2002
(Dollars in Thousands)

Customer Class	1998	1999	2000	2001	2002	Total
Residential	\$24,774	\$24,109	\$22,948	\$21,527	\$22,265	\$115,623
Commercial/Industrial						
Schedule A	8,078	7,826	7,694	7,198	7,065	37,861
Schedule AD	676	499	383	311	280	2,149
Schedule ALTOU	24,063	25,170	26,256	25,045	25,719	126,253
Schedule A6-TOU	1,624	1,760	1,489	1,604	1,745	8,222
Sub-total C/I	34,441	35,255	35,822	34,158	34,809	174,485
Agriculture	746	887	895	777	826	4,131
Lighting	361	360	372	377	423	1,893
Total	\$60,322	\$60,611	\$60,037	\$56,839	\$58,323	\$296,132

Source: Response to Initial Document Request SDG&E-IDR-012 (Revised per SDG&E-JWC-005).

- As a test of recorded revenues, the blueCONSULTING re-calculated the amount of PPP revenues using total kWh sales and approved PPP rates for the period 1998 through 2002 with a net difference of only \$263,000 or less than one percent of the \$296.1 million billed.
- During the 1998-2002 audit period, SDG&E billed electric PPP revenues in the amount of \$296.1 million. The variance from the \$283.8 million authorized amounts shown in **Exhibit III-46** is due to the application of the approved PPP rate to sales volumes that

were higher than the sales in the base year during which the rates were set. SDG&E's allocation of revenues to the various PPP program areas during the 1998-2002 audit period is shown in **Exhibit III-50**.

Exhibit III-50: SDG&E's Electric Billed Revenues Were Allocated to PPP Programs 1998-2002
(Dollars in Thousands)

	DSM	CARE	RD&D	Renewables	Total
1998	\$34,185	\$9,042	\$4,276	\$12,819	\$60,322
1999	34,348	9,086	4,297	12,880	60,611
2000	34,023	8,999	4,257	12,758	60,037
2001	32,210	8,520	4,030	12,078	56,838
2002	33,052	8,743	4,136	12,394	58,325
Total	\$167,818	\$44,390	\$20,996	\$62,929	\$296,133

Revenue Requirements and Rate Design - Gas

C27. During the period 1998-2002, SDG&E's gas surcharge rates were calculated in accordance with the Commission requirements.

- **Exhibit III-51** provides the calculated PPP gas rates for the period January 1, 1998 through December 31, 2002:

Exhibit III-51: There were 10 Revisions to SDG&E's Gas PPP Tariff
in the Period 1998 to 2002
(Cents/Therm)

Effective Date	Advice Letter	CARE				Non-CARE				CARE Tax Surcharge
		Core			Non-Core	Core			Non-Core	
		Res.	C/I	NGV	C/I	Res.	C/I	NGV	C/I	
06/01/1998	1094-G	2.79	1.00	0.89	0.34	3.32	1.53	1.42	0.87	0.528
01/01/1999	1131-G	3.16	0.99	2.98	0.45	3.70	1.53	3.52	0.99	0.540
07/01/1999	1155-G-A	3.16	0.99	2.98	0.45	3.69	1.52	3.51	0.98	0.526
01/01/2000	1177-G	3.20	1.00	3.02	0.45	3.71	1.51	3.53	0.96	0.510
06/01/2000	1198-G	3.03	1.08	1.05	0.40	3.48	1.53	1.50	0.85	0.447
01/01/2001 [Note 1]	1231-G	3.03	1.08	1.05	0.40	3.88	1.93	1.90	1.25	0.850
04/10/2001	1243-G	3.03	1.08	1.05	0.40	3.72	1.77	1.74	1.09	0.690
05/12/2001	1250-G	3.03	1.08	1.05	0.40	3.89	1.94	1.91	1.26	0.863
07/01/2001	1252-G	3.03	1.08	1.05	0.40	3.72	1.77	1.74	1.09	0.690
01/01/2002	1291-G	3.03	1.08	1.05	0.40	5.41	3.46	3.46	2.78	2.382

Note 1: Effective 1/1/2001 EG Class customers were exempted from paying for PPP programs. Allocated EG PPP rates not billed.

Source: Data Response SDG&E-JWC-001-Q3.

- AB 1002, dated September 30, 2000, directed the Commission to establish a gas tax surcharge to fund gas utilities' public purpose programs. Commission Resolution G-3303 established public purpose program surcharge rates by major customer class effective January 1, 2001 and also required the implementation of the PPP tax surcharge as a separate line item on customer's bills. Prior to passage of AB 1002, PGC collections were embedded in transportation rates. Gas PPP Revenue Requirements were subtracted from the Transportation Revenue Requirements for rate calculations.
- A review of the work papers associated with the Advice Letter changes for the period January 1, 1998 through December 31, 2002 indicates that PPP surcharge revenue requirements were properly disaggregated from gas transportation rates pre- and post-AB 1002.
- Established funding for public benefit programs required an individual rate component to be calculated based on usage. The following public benefit revenue requirement funding levels were established and used in SDG&E's rate calculations:

**Exhibit III-52: SDG&E's Approved Non-CARE Revenue Requirements Were Used in Gas PPP Rate Calculations 1998-2002
(Dollars in Thousands)**

Effective Date	Advice Letter	PPP Non-Care Revenue Requirement
06/01/1998	1094-G	\$11,969
01/01/1999	1131-G	12,610
07/01/1999	1155-G-A	12,610
01/01/2000	1177-G	12,774
06/01/2000	1198-G	12,774
01/01/2001	1231-G	12,774
04/10/2001	1243-G	12,774
05/12/2001	1250-G	12,774
07/01/2001	1252-G	12,774
01/01/2002	1291-G	12,774

Source: SDG&E Advice Letters.

C28. When the PPP gas surcharge was removed from the transportation rate and a new gas surcharge rate was established effective July 1, 2001, SDG&E properly computed the new rate in accordance with Commission requirements, and added it to its approved tariffs.

- A review of the work papers associated with Advice Letter 1252-G-B, effective July 1, 2001, indicates that PPP surcharge revenue requirements were properly disaggregated from gas transportation rates per AB 1002. The 1999 BCAP volumes for CARE and Non-CARE customers were used in the rate calculations.

⇒ The allocation of PPP revenue requirements for rates effective January 1, 2001 is shown in **Exhibit III-53**.

**Exhibit III-53: SDG&E Revised its Rates Effective January 1, 2001 Using the Following Gas Public Purpose Program Costs for Core and Non-Core Customers
(Dollars in Thousands)**

Description	Core	Non-Core	Total Revenue Requirements
Energy Efficiency (DSM)	\$5,250	\$671	\$5,920
LIEE	5,013	641	5,654
Public Benefit RD&D	1,064	136	1,200
Sub-Total	\$11,327	\$1,447	\$12,773
Increase due to State Wide Formula			255
Decrease due to Sempra-Wide EG Rate Formula			(789)
Net Change In Revenue Requirement Allocation			\$12,240

Source: Document Response SDG&E-JWC-001-(Q3), Work Papers Advice Letter 1252-G-B.

- The 1999 BCAP volumes for CARE and Non-CARE customers were used to calculate the rates shown in **Exhibit III-54**.

Exhibit III-54: The 1999 BCAP Volumes for CARE and Non-CARE Customers Were Used to Calculate the Rates in Advice Letter 1252-G-B, Effective January 1, 2001

(Cents/Therm)

	CARE Customers				Non-CARE Customers				
	Core			Non-Core	Core			Non-Core	
	Res.	C/I	NGV		C/I	Res.	C/I		
PPP Rates (Cents/therm)	3.03	1.08	1.05	0.40	3.72	1.77	1.74	1.09	CARE Tax Surcharge 0.690

Transportation Gas Volumes (mtherms)

	CORE				Non-Core			Sys Total
	Res.	C&I	NCV	Total	C&I	EG	Total	
1999 BCAP Volumes	326,207	129,794	4,030	460,031	86,211	897,926	984,137	1,444,168
CARE (Non-Exempt)	294,419	129,794	4,030	428,243	86,211	0	86,211	514,454

Source: Data Response SDG&E-JWC-001-Q3.

PPPC Revenues - Gas

C29. Although there is no indication that SDG&E did not follow the Commission's prescribed accounting and reporting requirements, during the period from 1998 through 2000, it is not possible to determine the actual amount of PPP revenues derived from the Company's gas operations.

- For 1998 through 2000, the gas PPP surcharge was embedded in SDG&E's gas transportation rate. SDG&E did not calculate and record PPP gas revenues during this period.

- During this period, SDG&E recorded the authorized Revenue Requirement in the balancing account as shown in **Exhibit III-55** (following):

Exhibit III-55: There Was a Negative Net Balance in SDG&E's Gas Energy Efficiency Balancing Account (PGEEBA) in the Period 1998 to 2000
(Dollars in Thousands)

Plan Year	Revenue Requirements	PPP Expenses	Adjustments (see Notes)	Interest Expense	PGEEBA Balance
1998	(\$5,500)	\$3,711	\$418	(\$63)	(\$1,434)
1999	(5,500)	4,981	418	(154)	(1,689)
2000	(5,919)	4,270	81	(261)	(3,518)

Note 1: During the three-year period, annual adjustments in the amount of \$418,000 were recorded representing transfers to the merger credit balancing account. In 2000, an additional offsetting adjustment in the amount of \$337,000 was recorded to increase the 1999 revenue requirement to the approved amount.

Source: DR SDG&E JDH-002.2 and blueCONSULTING Analysis.

C30. SDG&E treats the PPP gas surcharge and payments to the Board of Equalization (BOE) as an Excise Tax. As a result, SDG&E's surcharge rate calculations exclude a high percentage of total SDG&E gas sales (over 60 percent) to the classes of customers specified in Regulation Section 2316, including sales for power generation, sales for resale, and other specified end uses.

- SDG&E's treatment of the surcharge calculations, exclusions and BOE payments adheres to the regulations specified in the California Energy Resource Surcharge Regulations Issued Pursuant to Part 19, Division 2, Revenue and Taxation Code. The sales excluded from SDG&E's surcharge rate calculations are in accordance with PU Code § 896 and 898.
- In its accounting, SDG&E treats the PPP gas surcharge as if it is an Excise Tax. The Company adheres to the California Energy Resource Surcharge Regulations, and considers the Surcharge collections a debt. Quarterly payments are sent to the BOE Excise Tax Division.
- SDG&E accounts for the surcharge related revenues as a financial accounting liability that is discharged when payments are made to the BOE.
- As summarized in **Exhibit III-56**, during 2001 and 2002, SDG&E's surcharge rate calculations excluded 64 percent of total gas sales; however, not all exemptions are tax related.

Exhibit III-56: 64% of Natural Gas Sales are Exempt from SDG&E's Gas Surcharge 2001-2002

	Surcharge Collection Quarter	Total Therms Sold	Total Exempt Therms	Total Net Taxable Therms Subject to Surcharge	Percent of Sales Exempted From Surcharge
2001	Jan-Mar	406,729,242	207,874,823	198,854,419	51.1%
2001	Apr-May	389,269,309	271,809,884	117,459,425	69.8%
2001	Jun-Sep	388,221,703	299,680,915	88,540,788	77.2%
2001	Oct-Dec	368,675,635	240,422,888	128,252,747	65.2%
	Total 2001	1,552,895,889	1,019,788,510	533,107,379	65.7%
2002	Jan-Mar	406,729,242	207,874,832	198,854,410	51.1%
2002	Apr-May	332,381,143	201,670,045	130,711,098	60.7%
2002	Jun-Sep	387,754,597	293,571,219	94,183,378	75.7%
2002	Oct-Dec	296,011,869	167,255,974	128,755,895	56.5%
	Total 2002	1,422,876,851	870,372,070	552,504,781	61.2%
Total 2001 - 2002		2,975,772,740	1,890,160,580	1,085,612,160	63.5%

Source: BOE-501-NU(SIF)(3-01) Forms submitted by SDG&E to the California Board of Equalization.

C31. Our review of SDG&E's payments to and collections from the BOE, indicates that the calculations and payments by SDG&E were made correctly, while the payments to SDG&E from the BOE were delayed.

- The following is a schedule of payments to and collections from the BOE.

Exhibit III-57: As of December 31, 2002, SDG&E Remitted \$38.3 Million to the BOE and Submitted \$25.2 Million in Claims for Reimbursement, of Which \$16.8 Million was Received
(Dollars in Thousands)

	Month	Quarterly Payments to the Board	Payments Received From the BOE	Balance Held By the BOE	Monthly Expenses	Expenses to be Reimbursed by BOE
	a	b	c	d=Sum b - Sum c	e	f = Sum e minus Sum c
2001	January			\$0	\$236	\$236
	February			0	693	929
	March	5,037		5,037	675	1,605
	April			5,037	385	1,990
	May			5,037	1,297	3,287
	June	3,208		8,245	1,432	4,720
	July			8,245	1,780	6,500
	August			8,245	1,045	7,545
	September	2,410		10,655	1,148	8,693
	October		3,572	7,083	855	5,977
	November			7,083	1,445	7,422
	December	3,655		10,738	3,313	10,734

	Month	Quarterly Payments to the Board	Payments Received From the BOE	Balance Held By the BOE	Monthly Expenses	Expenses to be Reimbursed by BOE
	a	b	c	d=Sum b - Sum c	e	f = Sum e minus Sum c
2002	January			10,738	(112)	10,622
	February			10,738	278	10,901
	March	8,544		19,282	949	11,850
	April		6,575	12,707	753	6,028
	May			12,707	774	6,802
	June	5,746		18,453	1,171	7,973
	July			18,453	723	8,696
	August			18,453	1,266	9,961
	September	4,026	6,679	15,800	738	4,020
	October			15,800	519	4,538
	November			15,800	594	5,132
	December	5,647		\$21,447	3,252	8,384
Total	2001-2002	\$38,273	\$16,826		\$25,210	

Source: BOE-501-NU(Sif)(3-01) Forms submitted by SDG&E to the California Board of Equalization and Balancing Account PGEEBA.

- An analysis of the Schedule A attachments to the 2001 and 2002 remittance schedules submitted to the Board of Equalization verified that the Commission-approved PPP rates were used in calculating the BOE remittance amounts.
- SDG&E's accounting procedures for transactions with the BOE are described below:
 - ⇒ Collections from customers are recorded in an Excise Tax Liability account.
 - ⇒ Payments to the BOE are recorded in the same account to reduce the liability amount.
 - ⇒ PPP disbursements are recorded in the Gas Energy Efficiency Balancing Account (PGEEBA).
 - ⇒ Payments received from the BOE are also recorded in the PGEEBA, and the difference between PPP disbursements and payments received is the balance in the PGEEBA, in this case the \$8.4 million.

C32. In PY 2001 and 2002, SDG&E properly calculated PPP revenue collections and made appropriate payments to the BOE. Because of differences in actual volumetric sales and the sales volumes used to calculate the approved rates, SDG&E collected approximately \$378,000 more than its liability to the BOE.

- PPP revenues were re-computed for PY 2001 and 2000 based on gas sales volumes and approved rates.
- In Resolution G-3303, the Commission instructed the IOUs to remit PPP payments to the BOE. The resolution defined surcharge rates for each utility to be used in calculating these payments.

- For PY 2001, the Commission-defined rates to be paid to the BOE were not the same as the actual customer rates, a point that was acknowledged by the Commission in G-3303.
- For PY 2002, the Commission-defined rates to be paid to the BOE were the same as the actual customer rates. For this period, the re-computed PPP revenues were equal to those remitted to the Board of Equalization.

2. Recommendations for the Company:

None.

3. Policy Issues for the Commission:

- R3. The Commission should determine whether the gas PPC should be treated as revenue or as a tax, and require consistent accounting treatment by the utilities. Treatment of the surcharge as a tax may have unintended consequences as it exempts many customers from paying the surcharge. (Refers to Conclusion No. C30)**

F. SCG

1. Conclusions

Revenue Requirements and Rate Design - Gas

C33. SCG's gas surcharge rate changes were calculated in accordance with Commission requirements.

- Prior to passage of AB 1002, effective January 1, 2001, the PPP collections were embedded in transportation rates. The PPP revenue requirements were subtracted from the Transportation Revenue Requirement for the tariff rate calculations.
- On January 1, 2001, the gas PPP rate was separated from the gas transportation rate through the establishment of a gas surcharge to fund public purpose programs such as low-income customer assistance, energy efficiency and research and development.
- As shown in **Exhibit III-58**, SCG's gas PPP rates were revised eight times over the audit period (1998 through 2002).

**Exhibit III-58: SCG's Gas PPP Rates Were Revised Eight Times
During the Audit Period (1998 through 2002)
(Cents per Therm)**

Effective Date	CARE Customers				Non- CARE Customers					
	Core				Core					Non-Core
	Advice Letter	Res.	C/I	Gas A/C	Res.	C/I	Gas A/C	Gas Engines	NGV	C/I
1/1/98	2659	0.99	1.76	0.08	1.99	2.75	1.07	1.32	1.32	1.00
10/7/98	2743-A	1.22	1.85	0.08	2.21	2.84	1.07	1.32	1.32	1.00
1/1/99	2751-A	1.17	1.79	0.03	1.89	2.51	0.75	1.00	1.00	0.73
1/1/00	2879	1.19	1.82	0.01	1.91	2.54	0.77	1.02	1.02	0.73
6/1/00	2917	1.25	1.84	0.01	1.37	1.96	0.22	0.57	0.13	0.13
1/1/01	2982	1.35	1.94	0.21	1.54	2.13	0.39	0.74	0.19	0.19
7/1/01	3023	1.22	1.81	0.07	1.41	2.00	0.26	0.61	0.19	0.19
1/1/02	3096	1.22	1.81	0.07	2.93	3.52	1.79	2.14	1.71	1.72

Source: Data Response SCG - JWC-001-Q1.

- A review of the work papers associated with the Advice Letter changes for the period January 1, 1998 through December 31, 2002 confirmed that PPP surcharge revenue requirements were properly disaggregated from gas transportation rates pre- and post-AB 1002. **Exhibit III-59** provides the revenue requirements associated with each rate change.

**Exhibit III-59: SCG's Approved Revenue Requirements Were Used in Gas PPP Rate Calculations
1998-2002
(Dollars in Thousands)**

Effective Date	Advice Letter	Nature of Change	Non-Care Revenue Requirement	CARE Revenue Requirement
January 1, 1998	2659	Consolidated Year-End Rate Filing	\$51,584	\$44,562
October 7, 1998	2743-A	Remove 1996 BCAP Surcharge + \$6 million DAP Increase	47,788	44,562
January 1, 1999	2751-A	Consolidated Year-End Rate Filing	45,895	32,334
January 1, 2000	2879	Consolidated Year-End Rate Filing	46,802	32,334
June 1, 2000	2917	Implementation of 1999 BCAP D. 00-04-060	46,802	5,574
January 1, 2001	2982	Consolidated Year-End Rate Filing	50,471	8,567
July 1, 2001	3023	Established PPP Surcharge	46,406	8,567
January 1, 2002	3096	Consolidated Year-End Rate Filing	46,406	77,787

Source: Data Responses SCG-JWC-001 and SCG-JWC-007.

- On July 1, 2001, as required by AB 1002 and Commission Resolution G-3303, SCG implemented a gas PPP surcharge as a separate line item on customers' bills. The separated surcharge rate was developed in accordance with Commission requirements, properly computed, and reflected in the utility's tariffs.

⇒ A review of the work papers associated with Advice Letter 3023, effective July 1, 2002, indicated that PPP surcharge revenue requirements were properly disaggregated from gas transportation rates per AB 1002. **Exhibit III-60** provides the approved rates.

**Exhibit III-60: There was a PPP Gas Tariff Change in Advice Letter 3023, Effective July 1, 2001 -
(Cents/Therm)**

PPP Category	CARE Customer Rates	Non-CARE Customer Rates
Residential	1.219	1.405
Commercial/Industrial	1.812	1.998
Gas Air Conditioning	0.073	0.258
Gas Engine		0.613
Natural Gas Vehicles		0.186
Non-Core Commercial/Industrial		0.194
System Wide – Total	0.488	0.740

Source: Advice Letter 3023 and Document Response SCG-JWC-001.

⇒ The PPP revenue requirements were subtracted from the transportation revenue requirement for the tariff rate calculations. The gas surcharge rate was developed based on the PPP revenue requirement shown in **Exhibit III-61**.

**Exhibit III-61: SCG's Gas Public Purpose Program Costs Were Allocated to Core and Non-Core Customers for Rates Effective January 1, 2001
(Dollars in Thousands)**

Description	Core	Non-Core	Total Revenue Requirements
Energy Efficiency (DSM)	\$27,436	100	\$27,436
Direct Assistance Program (DAP)	18,360		18,360
RD&D Public Purpose	453	57	510
Sub-Total	\$46,249	\$157	\$46,406
CARE Surcharge	5,862	2,705	8,567
Total	\$52,111	\$2,862	\$54,972

Source: Document Response SCG-JWC-001, Work Papers Advice Letter 3023.

⇒ Details of the CARE revenue requirement are provided in **Exhibit III-62**.

Exhibit III-62: SCG's July 1, 2001 Gas PPP Surcharge CARE Revenue Requirement Was \$8.6 Million

Item	Amount
CARE Discount	\$23,242
CARE Credit - D.00-04-060	1,908
CARE Administration Cost	2,050
CARE Balancing Account	(18,634)
Total CARE Revenue Requirement	\$8,567

Source: Document Response SCG-JWC-001, Work Papers Advice Letter 3023.

⇒ The 1999 BCAP volumes for CARE and Non-CARE customers were used in the rate calculations:

**Exhibit III-63: The 1999 BCAP volumes for CARE and Non-CARE Customers Were Used in SCG's Rate Calculations
(Millions of Therms)**

	Core CARE Customers			CORE Non-CARE Customers					Non-Core C/I	Total System
	Res.	C/I	Gas A/C	Res.	C/I	Gas A/C	Gas Engine	NGV		
BCAP Avg. Vol.	2,546,852	834,635	4,030	2,546,852	834,635	1,200	16,040	N/A	1,456,757	9,502,953
Sale Vols. in PPP Rate Calc.	241,349	0	0	2,305,503	834,635	1,200	16,040	N/A	1,456,757	9,502,953
Actual 2001 Sales	213,167	1,981	N/A	2,251,631	913,208	8,012	331,741	23,556	1,059,086	11,759,003

Source: Data Response SCG-JWC-001 and 2001 Payment Forms Submitted by SCG to the California Board of Equalization.

- **Exhibit III-64** provides the rates effective January 1, 2002, which were approved by the Commission and consistent with the rates authorized in Resolution G-3329.

Exhibit III-64: Advice Letter 3096, Effective January 1, 2002, Changed SCG's PPP Gas Tariff - (Cents/Therm)

PPP Category	CARE Customer Rates	Non-CARE Customer Rates
Residential	1.219	2.931
Commercial/Industrial	1.812	3.524
Gas Air Conditioning	0.073	1.785
Gas Engine		2.138
Natural Gas Vehicles		1.712
Non-Core Commercial/Industrial		1.721
System Wide – Total	0.488	2.200

Source Advice Letter 3096.

PPP Revenues - Gas

C34. SCG treats the PPP gas surcharge and payments to the Board of Equalizations (BOE) as an excise tax. As a result, a significant portion of the therms sold are not subject to the surcharge (54 percent); however, not all exemptions are tax related.

- SCG's treatment of the surcharge calculations, exclusions and BOE payments adheres to the regulations specified in the California Energy Resource Surcharge Regulations Issued Pursuant to Part 19, Division 2, Revenue and Taxation Code.
- SCG's surcharge rate calculations exclude the sales to the class of customers specified in Regulation Section 2316.
- Not all exemptions are tax related. The sales excluded from SCG's surcharge rates represent sales to electric generation, wholesale, low-income, and public agency customers as defined in PU Code § 896 and 898.
- **Exhibit III-65** provides the percentage of SCG's sales which are exempt from the surcharge.

**Exhibit III-65: 54% of SCG's Total Gas Sales Were Exempt from SCG's Gas Surcharge
In 2001 and 2002**

	Surcharge Quarter	Total Therms Sold	Total Exempt Therms	Total Net Taxable Therms Subject to Surcharge	Percent of Sales Exempted From Surcharge
2001	Jan - Mar	3,521,436,037	2,009,388,230	1,512,047,807	57.1%
2001	Apr - Jun	2,619,211,331	1,516,491,606	1,102,719,725	57.9%
2001	Jul - Sep	2,796,513,572	1,863,014,876	933,498,696	66.6%
2001	Oct - Dec	2,857,841,657	1,603,722,285	1,254,119,372	56.1%
	Total 2001	11,795,002,597	6,992,616,997	4,802,385,600	59.3%
2002	Jan - Mar	2,904,122,273	1,124,404,555	1,779,717,718	38.7%
2002	Apr - Jun	2,255,988,115	1,011,751,464	1,244,236,651	44.8%
2002	Jul - Sep	2,589,332,619	1,604,212,562	985,120,057	62.0%
2002	Oct - Dec	2,378,497,873	1,119,532,228	1,258,965,645	47.1%
	Total 2002	10,127,940,880	4,859,900,809	5,268,040,071	48.0%
Average 2001-2002	Jan - Mar	6,425,558,310	3,133,792,785	3,291,765,525	48.8%
	Apr - Jun	4,875,199,446	2,528,243,070	2,346,956,376	51.9%
	Jul - Sep	5,385,846,191	3,467,227,438	1,918,618,753	64.4%
	Oct - Dec	5,236,339,530	2,723,254,513	2,513,085,017	52.0%
	2001-2002	21,922,943,477	11,852,517,806	10,070,425,671	54.1%

Source: BOE-501-NU(SIF)(3-01) Forms submitted by SCG to the California Board of Equalization.

- SCG treats the surcharge related revenues as a debt and until payments are made to the BOE, it is considered a financial accounting liability. Payments to the BOE are sent to the BOE Excise Tax Division.

C35. Prior to the implementation of AB 1002 on January 1, 2001, PPP revenues were embedded in the transportation rates and not separately tracked. As required by AB 1002, after January 2001, SCG began tracking gas PPP revenue.

- Beginning in 2001, PPP revenue and volumes sold are tracked by the PPP rate category classifications and not by customer rate schedule. **Exhibit III-66** provides revenues by customer class for 2001 and 2002.

Exhibit III-66: SCG Recorded 2001 and 2002 PPP Sales Volumes and Revenue

	2001		2002		Combined 2001 and 2002	
	Sales Volumes (Therms)	Total PPP Sales (\$000)	Sales Volumes (Therms)	Total PPP Sales (\$000)	Sales Volumes (Therms)	Total PPP Sales (\$000)
CARE						
Core Residential	213,166,999	\$2,602	273,712,109	\$3,338	486,879,108	\$5,939
Core C/I	1,981,120	36	2,197,279	40	4,178,399	76
Total CARE	215,148,119	2,638	275,909,388	3,377	491,057,507	6,015

	2001		2002		Combined 2001 and 2002	
	Sales Volumes (Therms)	Total PPP Sales (\$000)	Sales Volumes (Therms)	Total PPP Sales (\$000)	Sales Volumes (Therms)	Total PPP Sales (\$000)
Non-CARE:						
Core Residential	2,251,630,698	40,754	2,346,646,050	66,589	4,598,276,748	107,343
Core C/I	944,142,529	21,922	963,702,881	33,232	1,907,845,410	55,154
A/C	1,730,616	11	1,660,688	29	3,391,304	40
Gas Engines	24,481,651	249	25,149,481	538	49,631,132	787
Non-Core C/I	1,341,692,637	8,230	1,606,764,723	26,046	2,948,457,360	34,277
NGV	23,559,350	139	48,206,860	783	71,766,210	922
Total Non-CARE	4,587,237,481	71,307	4,992,130,683	127,216	9,579,368,164	198,523
TOTAL	4,802,385,599	\$73,944	5,268,040,071	\$130,594	10,070,425,670	\$204,538

Source: Data Response SCG-JWC-006 (Q2).

⇒ Since the Company did not track PPP revenue prior to the implementation of Assembly Bill (AB) 1002 on January 1, 2001, blueCONSULTING estimated 1998-2000 revenues based on SCG's actual 2001 and 2002 sales volumes by customer class as reported to the BOE, authorized PPP rates, and SCG's total historical system sales volumes as reported in its Annual Report. **Exhibit III-67** provides the assumptions used in the determination of estimated PPP revenues.

Exhibit III-67: SCG's 1998-2000 PPP Revenues Were Estimated Using Assumptions

Process Activity	Method
Factor for translation of Annual Report volumes to therms.	A conversion factor was determined using the combined 2001 and 2002 total therms sold from the BOE quarterly payments schedules and the SCG Annual Report volumes.
Factor for determining the level of sales exempt from PPP charges.	A conversion factor was determined using the combined 2001 and 2002 total therms sold and PPP sales from the BOE payment schedules (Exhibit III-65)
Factors for distributing non-exempt sale volumes by PPP rate category.	Distribution factors were determined using the average combined 2001 and 2002 PPP sales from the Schedule A of the BOE payment schedules.
Translate total sales volumes into PPP non-exempt PPP sales by PPP rate schedule category.	The calculated distribution was based on the total sales volume by year from the Annual Report, times the volume/therm conversion factor, times the PPP rate category distribution factors.
Calculation of theoretical PPP revenues for 1998 - 2000	The PPP categories distribution was multiplied by the authorized PPP rates (Exhibit III-58). In some cases the PPP rates changed during the year. When that situation was encountered an equal sales distribution over the year was assumed.

C36. In 2001 and 2002, customer-billed PPP revenues exceeded the authorized revenue requirements by \$20.9 million. From 1998 through 2000, the estimated PPP revenues were \$26.3 million less than the authorized revenue requirements.

- **Exhibit III-68** provides a comparison of the calculated 1998-2000 PPP and the 2001 and 2002 billed revenues to the revenue requirements authorized by the Commission.

**Exhibit III-68: SCG's PPP Revenue Requirements Were \$6.3 Million Greater than Billed PPP Revenue in the Period 1998-2002
(Dollars in Thousands)**

	PPP Revenue Requirements			Calculated or Actual Billed PPP Revenue	Variance
	Non-CARE Customers Revenue Requirements	CARE Customers Revenue Requirement	Total PPP Revenue Requirement		
1998	\$50,635	\$44,562	\$95,197	\$76,001	(\$19,196)
1999	45,895	32,334	78,229	70,847	(7,382)
2000	46,802	16,724	63,526	63,824	298
2001	48,439	8,567	57,006	73,944	16,939
2002	46,406	77,787	124,193	127,216	3,023
Total	\$238,177	\$179,974	\$418,151	\$411,832	(\$6,318)

Source: SCG-JWC-001, SCG-JWC-006 (Q2) and Audit Work Papers.

- Estimated PPP revenues for the period 1998-2002 are shown in **Exhibit III-69**.

Exhibit III-69: SCG Total 1998-2000 Calculated Gas PPP Revenue (Including CARE)

	CARE Customers Net Taxable Therms	CARE Customers Calculated PPP Revenue (\$000)	Non-CARE Customers Net Taxable Therms	Non-CARE Customers Calculated PPP Revenue (\$000)	Total PPP Calculated Revenue Including CARE (\$000)
Residential	649,833,847	\$6,312	6,137,285,050	\$112,087	\$118,399
Core C/I	5,576,877	100	2,505,099,455	61,981	62,082
Gas A/C	0	0	12,909,711	95	95
Gas Engine	0	0	476,338,968	4,800	4,800
NGV	0	0	103,108,241	942	942
Non-Core C/I	0	0	3,550,768,505	24,354	24,354
Total	655,410,725	\$6,413	12,785,509,929	\$204,259	\$210,672

Source: Audit Work Papers.

C37. PPP billed revenues differ from the amount remitted to the BOE. The BOE remittance was \$203.3 million for the two year period, while the amount collected from customers was \$204.5 million. Payments by SCG to the BOE were made correctly, while the payments to SCG from the BOE were significantly delayed.

- Virtually every quarterly payment schedule includes a sales adjustment which would more than account for the \$1.2 million difference between billed and remitted revenues. A review of the work papers and extracts from the billing system support the determination and reporting of revenues for 2001 and 2002 to the BOE. "Schedule A" attachments to the 2001 and 2002 remittance schedules submitted to the BOE confirm that the Commission-approved PPP rates were used in calculating the BOE remittance amounts.

- At the end of 2002, the BOE was holding \$135.7 million in payments submitted by SCG while there was an outstanding reimbursable expenses balance of \$32.9 million. These numbers seem to indicate that SCG has billed significantly more to customers for the PPP programs than its currently incurred BOE reimbursable PPP expense. **Exhibit III-70** provides a schedule of payments to and collections from the BOE:

Exhibit III-70: At the End of 2002, the BOE was Holding \$135.7 million in Payments Submitted by SCG While There Was an Outstanding Reimbursable Expenses Balance of \$32.8 Million
(Dollars in Thousands)

	Month	Quarterly Payments to the Board	Payments Received From the BOE	Balance Held By the BOE	Monthly Expenses	Expenses to be Reimbursed by BOE
	(a)	(b)	(c)	(d=Sum b-Sum c)	(e)	(f = Sum e minus Sum c)
2001	January				\$2,292	\$2,292
	February				2,198	4,489
	March	\$24,753		\$24,753	2,007	6,496
	April			24,753	5,640	12,136
	May			24,753	4,603	16,740
	June	17,099		41,852	4,776	21,516
	July			41,852	5,081	26,597
	August			41,852	4,477	31,074
	September	13,005	11,249	43,609	1,695	21,520
	October			43,609	6,897	28,417
	November			43,609	5,361	33,778
	December	18,727		62,336	9,472	43,250
2002	January			62,336	3,821	47,071
	February			62,336	2,117	49,188
	March	42,676		105,012	3,776	52,964
	April		30,227	74,785	3,770	26,508
	Exp. Adj.			74,785	(4,073)	22,434
	May			74,785	2,984	25,418
	June	31,494		106,279	4,493	29,911
	July			106,279	3,621	33,533
	Exp. Adj.			106,279	(973)	32,560
	August			106,279	1,266	33,825
	Exp. Adj.			106,279	528	34,353
	September	24,063	26,176	104,166	5,333	13,510
	October			104,166	7,248	20,758
	November			104,166	3,226	23,984
	December	31,505		135,672	8,802	32,786
	Total	\$203,323	\$67,652		\$100,438	

Source: BOE-501-NU(Sif)(3-01) Forms Submitted by SCG to the California Board and Data Response SCG-LCI-002 (Q2-#1) Balancing Account 1150011.

Regulatory Accounts - Gas

C38. With the possible exception of the interest calculation, SCG's entries to the gas balancing accounts were made correctly.

- SCG tracks gas PPP revenues (or revenue requirements) and costs in its Conservation Expense Account (CEA). A comparison of CEA accounting procedures pre- and post-surcharge is provided in **Exhibit III-71**.

Exhibit III-71: SCG's CEA Accounting Procedures Changed Following the Implementation of the Surcharge

Entry	CEA 1998-2000	CEA 2001 and 2002
Credit	Authorized Revenue Requirement being collected as part of rates.	Amounts of reimbursement from the Gas Consumption Surcharge Fund.
Debit	Actual demand-side management costs, e.g., conservation costs, low income weatherization; DAP costs, and other marketing program costs; amortization of balances, if any, due to ratepayers from prior program cycles where actual expenses fell short of authorized levels.	Actual demand-side management costs, e.g., conservation costs, low income weatherization; DAP costs, and other marketing program costs; amortization of balances, if any, due to ratepayers from prior program cycles where actual expenses fell short of authorized levels; Interest charges on unreimbursed program costs net of PGC collections held for payment to the BOE.

- Prior to January 1, 2001, authorized revenue requirements, not actual revenue collected, were recorded in the balancing accounts.
- After January, 2001, the reimbursements from the BOE were recorded in the balancing accounts as revenue.
- The methodology for calculation of interest on SCG's PPP balancing accounts is inconsistent with the methodology employed on other balancing accounts. As discussed in Chapter V, instead of calculating accrued interest on a monthly basis, SCG calculated interest based on the average of the beginning and ending balance for the entire period.

2. Recommendations for the Company:

R4. If required by the Commission, SCG should revise the balancing accounts to reflect changes in the interest calculation as discussed in Chapter V. (Refers to Conclusion No. C38).

3. Policy Issues for the Commission:

R5. The Commission should determine whether the gas PPC should be treated as revenues or as a tax, and require consistent accounting treatment by the utilities. Treatment of the surcharge as a tax may have unintended consequences as it exempts many customers from paying the surcharge. (Refers to Conclusion No. C34).